

# NHS Education for Scotland

External Audit Annual Report to the Board and  
the Auditor General for Scotland

2016/17 Financial Year

Board 29 June 2017



# Contents

	<b>Page</b>
Key Messages	3
Financial Statements Audit	5
Financial management	14
Financial sustainability	17
Governance and transparency	21
Value for money	24
<b>Appendices</b>	
Audit adjustments	27
Follow up on prior year recommendation	28
Action plan	29
Reminder of responsibilities	31
Audit Fees	32
Letter of representation	33

## Summary of our audit plan:

Materiality has remained at £4.364m between planning and final accounts, due to the fact that net expenditure in the draft financial statements was in line with our expectations

Performance materiality is set at £2.836 million and we have reported to management everything identified over £0.043 million (1% of materiality).

Financial statement audit risks were: management override of controls; risk of fraud in revenue recognition; accounting for operating leases; completeness of operating expenses and employee remuneration; and existence of intangible assets.

We also identified one wider scope risk in relation to future financial sustainability.

We can confirm we are independent of NHS Education for Scotland and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors.

No non-audit services have been provided to NHS Education for Scotland in 2016/17. Appendix E contains further information on our fees.

# Key Messages

We issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters

2016/17 has been a successful year for NHS Education for Scotland (NES). NES met its financial targets and achieved the vast majority of its performance targets. NES has continued to invest in digital infrastructure, particularly with its Turas digital platform, which aims to deliver NES training services and resources to users anytime, anywhere and on any device.

As with other parts of the NHS, the financial position continues to be challenging. For 2017/18, NES has a savings target of £7.1m, of which £2.96m remained unidentified at the start of the year. We are satisfied that NES has appropriate arrangements for managing its financial position and there is appropriate engagement with the Government's plans for reforming the NHS. It is important that NES continues to monitor the overall financial position and the delivery of planned efficiencies.

We issued an unqualified opinion on your financial statements and the associated information in the Annual Report. Officers provided us with good support throughout the audit process. The Annual Report and accounts comply with guidance and are consistent with our knowledge of you as an organisation. Management have amended the Annual Report following suggestions made during the audit to improve the clarity of elements of the reporting and further consideration will be given to other enhancements going forward.

There is a comprehensive performance management system in place, although there may be opportunities to streamline the process thus making it more focussed and timely. NES has appropriate processes in place to ensure it delivers Best Value and has received positive feedback on performance from Scottish Ministers.

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Board (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Our work included:

- An audit of the 2016/17 Annual report and accounts.
- A review of the Performance Report and Accountability Report (including governance statement and remuneration report).
- Completion of the 'Role of Board's' return submitted to Audit Scotland to inform a future performance publication.
- The annual NHS Minimum dataset return.
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress.

This report has been discussed and agreed with management, and presented to the Audit Committee on 16 June 2017. We would like to thank management and staff for their co-operation and assistance throughout our audit work.

For and behalf of Grant Thornton UK LLP

29 June 2017



# The Financial Statements Audit



Our Audit Plan was presented to the Audit Committee on 11 January 2017. We have not altered our planned audit approach as set out in the plan or needed to update our final materiality figures based on the draft 2016/17 accounts. Our planned and final materiality was £4.364 million.

We issued an unqualified opinion on the Board's accounts on 29 June 2017.

Our audit work commenced on-site on 8 May 2017 but we experienced a slight delay in receiving a complete set of the accounts with clear supporting working papers. Once these were received no material errors were identified, although there were some subsequent adjustments to the numbers initially provided.

We will work with you to review the accounts production and audit process for 2017/18 and have arranged a meeting in early August 2017 to review the lessons learnt in our first year of working together.

Management and staff were prompt to respond to our queries. Although there is inevitably a delay in the final performance information becoming available, we received the annual report (front end) on 26 May, which was slightly later than planned. This has been subject to detailed review and we have made some recommendations for improvement.

In line with triviality we have reported all potential audit adjustments identified above £43,640 to management; along with identified disclosure enhancements. A summary of corrected and uncorrected adjustments are set out in Appendix A; including a note of the key disclosure changes to the draft annual report and accounts.

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on NHS Education for Scotland's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Under ISAs we are required we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report.

This report discharges our obligations under the relevant ISAs.

## Internal Audit

As set out in our plan, we have not placed formal reliance on the work of the Internal Audit function during 2016/17. We have reviewed the internal audit plan, and the two internal reports considered relevant to our external audit in order to inform our own risk assessments. These were payroll and expenses (14 April 2016) and income and receivables (12 January 2017).

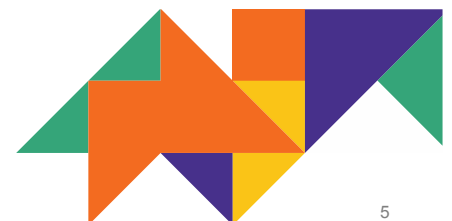
We note these reports found controls over payroll and expenses to be generally operating effectively, and found that NHS Education for Scotland has clear policies and procedures in place for the management of income and receivables.

## Internal Control Environment

During the year we have sought to understand NHS Education for Scotland's overall control environment as related to the annual report and accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around IT general controls
- Performed walkthrough procedures on key controls around identified risk areas.

Our work identified no material control deficiencies however we consider there is scope to enhance the general IT controls in a small number of areas. These do not impact on the financial statements and we have reported these matters to management so that they can be addressed going forward.



# Our identified Audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthroughs of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management</p> <p>Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years.</p> <p>Key accounting estimates we have considered are: intangible assets capitalisation and useful economic lives, and provisions in relation to the CNORIS, dilapidations and VAT. Total provisions in year were £5.017 million, compared with £4.557 million in 2015/16. The most significant provision is related to lease dilapidations. We have agreed these figures back to the dilapidation surveys carried out by a RICS qualified building surveyor. This provision has increased by £284k this year due to unwinding of the discount and the renegotiation of the Aberdeen lease.</p> <p><b>Journals:</b> We made inquires related to inappropriate or unusual activity of those members of staff who can post and authorise journals with no concerns noted. We confirmed completeness of journals, identifying 2,740 journals during the year. We targeted large and/or unusual journals and did not find any issues or invalid journals. We did note one weakness in the control environment in relation to the fact that journals can be posted to the ledger prior to authorisation.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for NHS Education for Scotland.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. NHS Education for Scotland's other income is £5 million. We do not believe it is appropriate to rebut the revenue recognition risk.</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed other revenue to cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Considered the recoverability of any outstanding balances at year end.</p>	<p>We found there to be clear policies and procedures in place for the management of income and receivables. Our walkthrough procedures confirmed that the control environment in relation to income and receivables is operating as intended.</p> <p>Our sample testing of other revenue found all sample items to be valid income.</p> <p>No issues were noted from our review of the treatment of income in the year, which has been accounted for in line with the Annual Accounts Manual.</p> <p>We agreed the amounts recorded in the accounts to the final allocation letter from Scottish Government.</p>

# Our identified Audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Accounting for Operating Leases</b></p> <p>NES holds four significant operating leases. NES use expert conditions surveys and best management estimates to aid value dilapidation provisions for costs related to the expiry of the leases up to and including 2023.</p> <p><b>Work undertaken:</b></p> <p>Established and documented management controls</p> <p>Completed an assessment of the credentials and independence of the management expert used for conditions surveys</p> <p>Conducted a review of expert conditions surveys</p> <p>Conducted a review of operating leases to ensure appropriate classification</p> <p>Evaluated the reasonableness of provision estimations and judgements.</p>	<p>Our walkthrough procedures did not find any issues in relation to management controls surrounding the treatment of leases.</p> <p>We confirmed that the expert who carried out the dilapidation surveys was RICS qualified and had sufficient experience and capacity to undertake the work.</p> <p>We assessed the lease agreements against criteria outlined within IAS 17 to consider whether there is any indication that they would be more appropriately held as finance leases. From this exercise we confirm that NHS Education for Scotland’s classification of the leases as operating rather than finance leases is appropriate.</p> <p>We reviewed the expert condition surveys and used these as a basis for evaluating the reasonableness of the dilapidations provision. We found that the figures from the surveys agreed through to the figures used in the dilapidation working papers.</p>

# Our identified Audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Completeness of operating expenditure</b></p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and Scottish Public Finance Manual (SPFM)</p>	<p>Nothing has come to our attention through our year end procedures to indicate that expenditure and receipts have not been incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers, or to indicate that expenditure is not valid or is incorrectly classified between revenue and capital.</p> <p>We confirm that NHS Education for Scotland has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD) and therefore in compliance with the financial targets in the year (Revenue Resource Limit/Cash Limit/Capital Resource Limit)</p> <p>Through our pre and post year end cut off testing we did not identify any expenditure that was incorrectly accounted for.</p> <p>We have assessed completeness of expenditure through agreement of balances to signed third party confirmations required as part of SFR 30 (Balances with other NHS Scotland bodies) and we are satisfied that the figures within your financial statements are materially correct.</p>



# Our identified Audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Completeness of employee remuneration</b></p> <p>Staff costs account for a significant proportion of the total expenditure of NES. There is a risk that employee remuneration costs are understated or not recorded in the right period.</p> <p><b>Work undertaken:</b></p> <p>Reviewed the control environment through internal controls walkthrough testing.</p> <p>Performed an analytical review against expectations and investigated any significant movements in employee remuneration expenditure.</p> <p>Performed substantive testing of employee remuneration accruals at the year end.</p> <p>Performed substantive testing to agree staff members to the e-payroll system and re-calculate employer costs.</p>	<p>Our walkthrough procedures did not identify any issues in relation to the internal controls associated with employee remuneration.</p> <p>We have obtained satisfactory explanations for the small variances identified by our detailed analytical review and payroll trend analysis. We are satisfied that the employee remuneration costs for 2016/17 are fairly stated.</p> <p>Our substantive testing of the employee remuneration costs did not identify matters that we wish to bring to your attention.</p>

# Our identified Audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Existence of Intangible Assets</b></p> <p>Intangible asset activity not valid.</p> <p><b>Work undertaken:</b>                      Documented our understanding of the controls and procedures around recording and capitalisation of intangible assets</p> <p>Conducted existence and ownership testing of current intangible assets</p> <p>Performed testing on in-year capitalised expenditure to ensure appropriateness and accuracy of intangible asset additions</p>	<p>We confirm that NHS Education for Scotland have adequate controls and procedures in place to record and capitalise intangible assets. In particular we found the process for recording staff time and allocating the relevant proportion of this to capital expenditure to be a highly comprehensive procedure with a clear audit trail.</p> <p>For the in-year additions of £1.667 million we substantively verified the completeness and accuracy of this balance by re-performing the calculation of capitalised staff costs and tracing a sample of gross pay through to a monthly payroll report.</p> <p>We confirmed the existence and ownership of the Turas platform by viewing the online webpage and portal through the NHS Education for Scotland website.</p> <p>We considered NHS Education for Scotland’s decision to treat parts of the Turas platform as having an indefinite useful life and assessed this for compliance with the Annual Accounts Manual and IAS 38. Whilst we accept this accounting treatment is reasonable for 2016/17, it is important for management to regularly review this judgement going forwards so as to ensure it remains relevant.</p>

# The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding of NHS Education for Scotland and the financial information set out in the accounts and have set out our observations below:

## Performance Report

The report outlines that NHS Education for Scotland has met its statutory targets for the year.

In our view, the draft Performance Report could have been strengthened by:

- Expansion to include greater detail so that the users of the financial statements can understand the Board's performance, purpose and activities without looking further into the accounts, as recommended by Audit Scotland guidance.
- Inclusion of visual aids within the report, particularly in relation to performance against KPIs, to break up the narrative and make it clear whether targets have been achieved.

## Annual Governance Statement

The required elements have been included within the Governance Statement.

In our view, the draft Governance Statement could have been strengthened by:

- Amending the report to include an overall summary or conclusion paragraph at the end.
- Including the overall Head of Internal Audit Opinion on the adequacy of internal controls.
- Reviewing the layout of the Annual Governance Statement to see if the messages can be communicated in a more user-friendly way.

We note management has responded positively to these suggestions and the Governance Statement has been revised to reflect the first two bullets above.

## Remuneration Report

There were no matters arising from our review and testing of the auditable elements of the Remuneration report.

The Fair Pay disclosure has been amended to show the range of pay rates during the year.



We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

### Accounting Policies

- Accounting policies are in accordance with the Annual Accounts Manual and we consider these to be appropriate to NHS Education for Scotland.

### Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
- Lease dilapidation provisions: we agreed these to the expert's dilapidation surveys and re-performed the NPV and unwinding of the discount calculations.
- VAT provision: we are aware that NHS Education for Scotland have an ongoing dispute with HMRC in relation to the treatment of a £559k VAT charge. We examined correspondence from HMRC and the response put forward by your advisors. Based upon this, we agree with management's decision to treat the VAT charge as a provision whilst the outcome remains uncertain.
- Intangible assets existence, amortisation policy and expected useful economic lives

### Going Concern

- NHS Education for Scotland has an agreed budget for 2017/18 and continues to discuss future funding with Scottish Government. Our audit has not identified any reasons why it is inappropriate to prepare the accounts on the basis the Board is a going concern.
- See additional commentary around future financial sustainability risks beyond this period.

### Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over the timing of transactions or the period in which they were recorded.

### Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

# Financial management



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## Financial performance against targets

NHS Education for Scotland met all of its financial targets in 2016/17 and this is a notable achievement in what has been – and continues to be – a very challenging period across the whole of the NHS.

NES has a good track record regarding financial delivery and the performance in 2016/17 is set out below:

	Target £m	Actual £m	(Over)/Under £m
Core Revenue Resource Limit (RRL)	436.589	436.044	545
Non-core Revenue Resource Limit	2.045	2.045	0
Capital Resource Limit (CRL)	2.200	2.159	41
Cash requirement	441.155	441.155	0

## Financial capacity

The finance function was reviewed in 2014 and a new operating structure approved in February 2015, with implementation substantially complete by December 2016. Previously there was a central finance team, regional finance teams and individual posts throughout NES with some involvement in finance activity.

As this did not meet the requirements of the organisation, a Business Partner approach with a Finance Manager in each directorate and a single Finance shared service centre has been implemented.

## Reporting financial performance

Regular finance reports to the Board are produced throughout the year. Direct reporting to the Board is in line with our expectations for a well-run organisation given the importance of achieving the statutory limits set by the Scottish Government.

The financial reports at NES are at a relatively high level compared to those produced at other organisations, but they do communicate the key issues in a clear and concise manner.

Whilst we recognise the unique purpose of NES and the way in which it operates, the future financial challenges across the whole of the NHS mean that it is appropriate for the Board to review the format and content of the finance reports it receives in order to ensure its needs are met.

In particular, improvements to consider include:

- Reporting savings plans separately; and
- Linking finance reports to performance reports.

The final outturn for 2016/17 as recorded in the financial statements for the year ended 31 March 2017 was in line with the expectations throughout the year. This provides assurance that the budgetary control system at NES are operating effectively.

## Systems of Internal Control

NES has outsourced its Internal Audit provision to a private sector provider. Our high-level review of Internal Audit, which we undertook as part of our review of the overall control environment, did not identify any concerns regarding Internal Audit.

Internal Audit have developed a three year strategic plan which supports the production of the annual plan. This operational plan is adequately resourced and is agreed with management and approved by the Audit Committee.

There is a system in place to ensure that all agreed recommendations are implemented. Reports from Internal Audit show that there are sometimes delays in implementing recommendations. The Audit Committee are made aware of these delays and ensure that there are valid reasons for them.

Recommendation tracking starts with the 'due date' and it would be helpful to review progress in addressing significant issues with a long lead-in time before the 'due date' is actually reached so that any potential slippage is identified promptly. Such longer term recommendations are relatively uncommon and would typically have a number of milestones which can be reported against.

## The prevention and detection of fraud and corruption

### NFI – the national picture

In June 2016 Audit Scotland published a report on the 2014/15 National Fraud Initiative (NFI).

This report stated that, across Scotland, NHS bodies' arrangements for NFI have weakened compared to the previous exercise in 2012/13. Our view is that this may be due, in part, to a reduction in capacity as a result of the financial pressures across the whole of the NHS.

The Audit Scotland report also stated that:

- almost half (41%) of bodies need to follow up their matches more promptly; and
- only 31% of Audit Committees had reviewed the 2014 NFI report and carried out the self-assessment checklist within it.

Participating in the NFI provides all bodies in Scotland with an opportunity to review their own arrangements and also acts as a deterrent to persons who may be considering committing fraudulent acts.

### NFI – the position at NES

As far as the 2016/17 NFI exercise is concerned, we are of the view that NES has an appropriate plan in place to plan and progress with the NFI exercise and respond to outcomes.

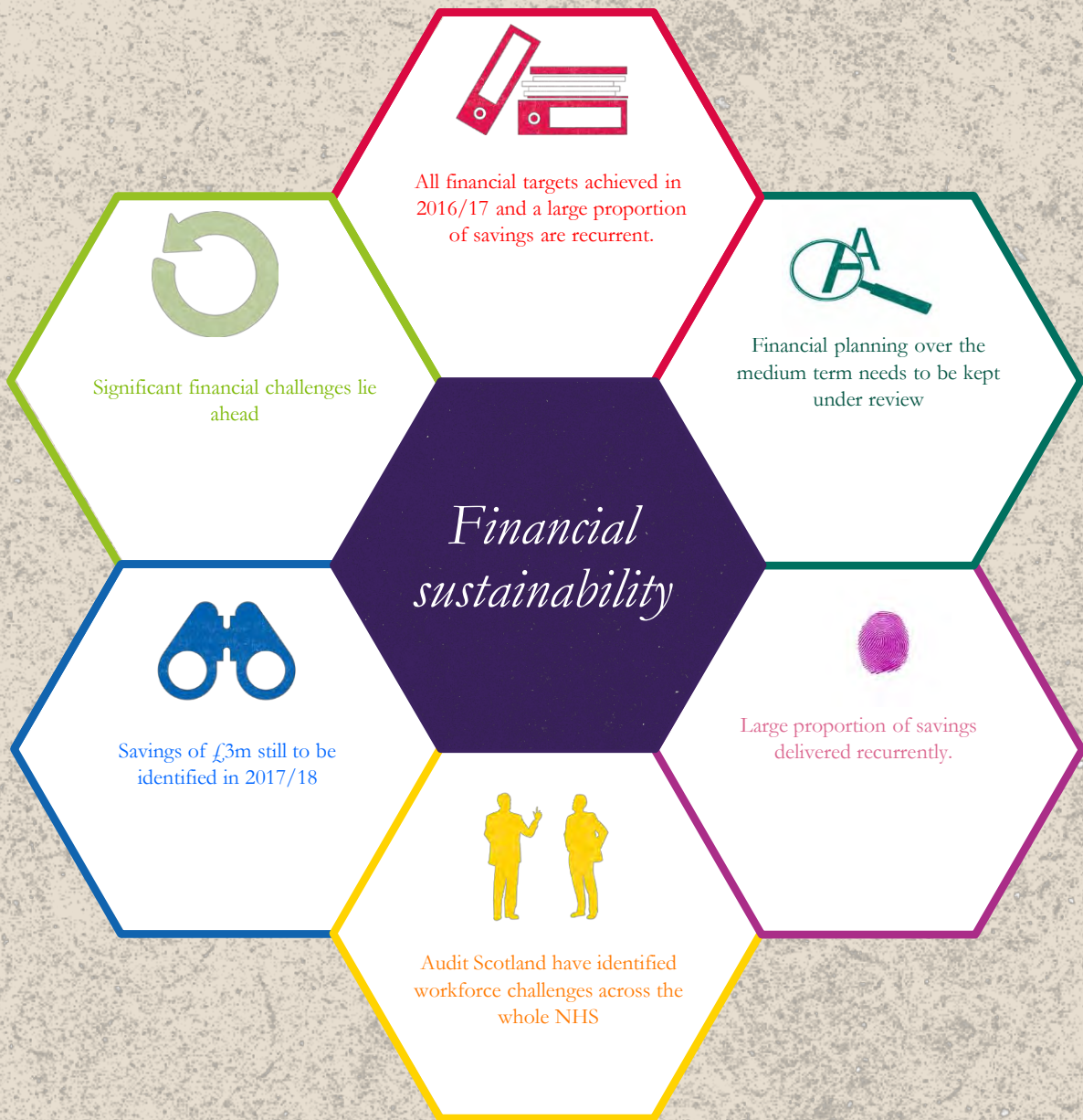
The NFI exercise is given sufficient support and attention via consideration at Audit Committee meetings.

All 'matches' identified by the NFI exercise are reviewed by relevant staff within finance and HR and then undergo a final review by a more senior member of staff.

Matches are appropriately prioritised so that the most significant ones are investigated and resolved first. We deem these arrangements to be sufficient.

Nevertheless, we recommend that the self-assessment questionnaire is completed as a means of raising the profile of the exercise and monitoring progress going forwards.

# Financial Sustainability





# Financial sustainability

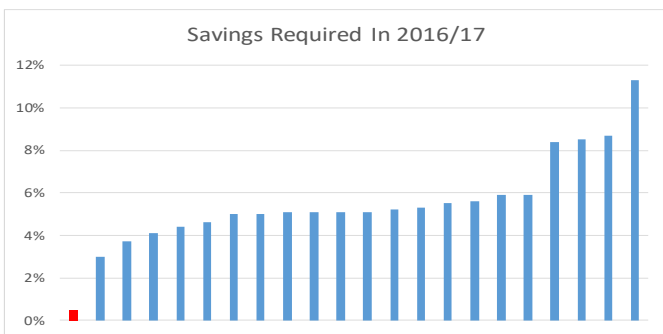
Wider scope area of focus identified	Conclusion
<p><b>Financial Sustainability in 2017/18 and longer-term</b></p> <p>Audit Scotland's NHS Overview Report highlighted increasing financial pressure and long term financial sustainability challenges across the NHS in Scotland.</p>	<p>Despite having a challenging budget to deliver, NHS Education for Scotland achieved all of its statutory financial targets in 2016/17. In doing so, £1,889k of the £2,551k savings identified (74%) were achieved on a recurrent basis. This puts NES in a good position to address the financial challenges that lie ahead.</p> <p>For 2017/18 NES identified a funding gap of £7.1m, of which £2.96m of savings were unidentified at the start of the year. Although these unidentified savings are small compared to other NHS Boards in Scotland, it does represent a risk to NHS Education for Scotland. The Board should ensure that these savings are identified promptly and that progress against delivery is adequately monitored.</p>

# Financial sustainability

## Financial position in 2016/17

As noted earlier, NHS Education for Scotland met all of its financial targets in 2016/17.

The 2016 report by Audit Scotland on the financial position of the NHS in Scotland showed that NES had the lowest savings targets of any of the Boards in Scotland, although this ignores reductions to the baseline funding provided to NES.



However, this analysis masks the true level of savings required for all Boards as comparing funding year on year ignores the impact of inflation.

Delivering the same level of services in consecutive years with identical funding can only be achieved if savings equivalent to the inflationary pressures on the budget have been achieved. This challenge varies from Board to Board as some areas of expenditure (e.g. drugs costs) have experienced higher increases than others (e.g. staff costs).

Audit Scotland reported that there is evidence of Boards increasingly using short-term approaches to meet their financial targets and some Boards only achieved their financial targets in 2015/16 through one-off measures.

Such an approach simply defers problems from one year to the next and our view is that long-term financial challenges require long-term, sustainable solutions.

NES has a good system for identifying and addressing risks to financial sustainability and achieved a large proportion of its savings in 2016/17 on a recurrent basis.

The position at NES compares favourably to other Boards. In 2015/16, across Scotland 32% of savings were on a non-recurrent basis, a significant increase from the 25% in the previous year. We expect this trend to continue as savings become increasingly difficult to identify.

## Budget for 2017/18

Looking ahead to 2017/18, the budget for the year included a 'balancing figure' of almost £3m which reflects the savings that had still to be identified for the year.

Although this is small compared to other NHS Boards, it does represent a risk to NHS Education for Scotland and ongoing work will be required to manage this situation.

Some savings plans have long lead-in times or require an element of investment and any delays in identifying the £2.96m of unidentified savings will increase the pressures in the remainder of the financial year.

We also recognise that there will be ongoing financial pressures in the year and that managing the agreed elements of the budget will be a challenge and will require significant effort across the whole organisation.

## Medium-term financial planning

It is widely recognised that the NHS is experiencing unprecedented financial pressures and these are expected to continue for the foreseeable future. An ageing population across the Country will almost certainly add to the demand pressures in the system and costs pressures will only continue to grow in some areas where treatment becomes more complex and more expensive year-on-year.

Our view is that many of the solutions will require a change to the way services are delivered and these will inevitably need a significant lead-in time meaning that the full benefits are unlikely to be achieved in either 2017/18 or 2018/19.

In the absence of medium-term financial framework for the NHS, effective medium-term financial planning is significantly restricted.

NHS Education for Scotland has assessed its likely financial position for 2017/18 to 2019/20 using a number of assumptions around funding and cost pressures, although there is a large element of uncertainty as the Government's spending plans are unknown.

The analysis shows that the majority of the expected funding will be on a recurring basis, although this needs to be kept under review and ongoing dialogue with its partners is essential.

## Staffing within the NHS

In February 2017 Audit Scotland issued a report on the workforce of the NHS.

According to this report, around 55% of NHS spending in 2015/16 was on staff costs. Clearly this means that identifying new efficiencies and savings in staff costs will be key for Health Boards to meet their savings targets and budgets.

# Financial sustainability

The following four areas have been highlighted as key challenges for the whole of the Scottish NHS workforce:

Area	Key Messages
<b>Vacancy rates</b>	These have been increasing among some groups of NHS staff. Whilst some Boards have used staff turnover as a way of managing cost pressures, in other cases it has led to a higher spend on agency staff.
<b>Turnover rates</b>	Turnover rates have increased nationally since 2012, leading to an increase in recruitment and training costs.
<b>Sickness absence</b>	Sickness absence rates have increased nationally over the last few years, although they vary significantly across Boards. The national sickness absence target is 4%. Higher sickness absence could lead to a higher risk of unsafe staffing levels or an increase in staff costs if not managed effectively.
<b>Ageing workforce</b>	There is a trend towards an increasingly ageing workforce, with 38% of Scottish NHS staff being over the age of 50 in 2016, compared with 34% in 2012. An ageing workforce leads to higher retirement rates, which will increase the demand for new trainees to enter the workforce.

The Audit Scotland report identifies significant challenges across the whole of the NHS in Scotland and some of these issues are relevant to NES, both directly and indirectly.

The report was reviewed by the HR Director at NES and any actions were highlighted either via the workforce or succession planning processes.

NES does not consider it has a specific issue with sickness absence or turnover.

# Governance and transparency



## Corporate governance policies

NHS Education for Scotland updated its Governance Handbook in February 2017. The key elements included within this comprehensive document are:

- Standing orders
- Code of conduct
- Bribery act guidance
- Scheme of delegation
- Standing financial instructions

Having these elements incorporated into one document is considered to be helpful to staff and non-executive directors.

As always, the challenge for all large, complex organisations is one of ensuring there is awareness of, and compliance with, the governance framework.

## Committee structures

NHS Education for Scotland committee structure and remits are set out below:

Committee	Remit
Board	Oversight and strategic matters
Educational and Research Governance Committee	To ensure that educational and research activities are governed to standards of best practice in order to ensure compliance with external regulation.
Audit Committee	To deal with issues relating to internal control and corporate governance; internal and external audit; Standing Orders and Standing Financial Instructions; and Annual Accounts.
Finance and Performance Management Committee	To provide additional scrutiny of financial reports, performance management reports and other appropriate matters delegated to it by the Board, including estimates of income and expenditure; budget reports; and all matters relating to the financial management of NES.
Staff Governance Committee	To deal with all staff governance issues, including delivery against the Staff Governance Standard; preparation of staff governance information and data for the Performance Assessment Framework; and approval of HR policies on behalf of the Board.
Remuneration Committee	To oversee the performance management and remuneration of NES Directors and Senior Managers.

The committee structure is straightforward with a minimal risk of duplication or matters being overlooked.

The structure and reserved powers are broadly in line with our expectations, and our experience of other bodies.

## Accessibility

The Board meets a minimum of six times a year, typically bi-monthly, and the meetings are held in public. The papers are available for download to the general public (subject to the usual restrictions), which promotes transparency.

We have found the Board’s website easy to navigate and there is a wealth of information available about the services delivered and the future plans.

## Role of Boards

We submitted a return to Audit Scotland in June 2017 in relation to the Role of Boards as part of their wider follow up work in this area. It considered three key areas, and we set out our assessment against each below:

Area	Response
Are governance, decision making and scrutiny arrangements effective?	Yes. The governance handbook was reviewed in February 2017. The Finance and Performance Management Committee reports to the Board and provides additional scrutiny of financial reports, performance management reports and other appropriate matters delegated to it by the Board.
To what extent do non-executives and staff demonstrate high standards of behaviour?	<p>Our review of Board minutes shows that members/non-executive directors are asked to declare any interests they have at all Board meetings. Declaration of Interests is a standing item on Board agendas.</p> <p>The Board completed a self-assessment of its effectiveness in February 2017 and has had subsequent workshops to discuss any improvement areas identified.</p>
To what extent do non-executives and staff receive sufficient training and development?	<p>Induction and ongoing training is provided to all Board members.</p> <p>Performance of Non-Executive Board members is reviewed by the Chair and Executive Board members' performance is reviewed by the Chief Executive.</p>

# Value for money



# Value for Money

## Delivering value for money

NHS Education for Scotland undertakes an annual self-assessment against the arrangements that it considers an organisation needs to have in place in order to deliver value for money.

This detailed assessment covers a range of issues across the following seven areas:

1. Vision and leadership
2. Effective partnerships
3. Governance and accountability
4. Use of resources
5. Performance management
6. Sustainability
7. Equality

This assessment will ultimately be reported to the Board and, in our view, this represents good practice. We did note that the initial self assessment showed that the arrangements in place were adequate in all of the areas assessed and that there were no areas for development and consequently no action plan.

NES recognises that in an extremely challenging financial and operational environment, all public sector organisations must strive for continual improvement. An element of challenge to the self-assessment from the senior leadership team will therefore be applied to add rigour to the process and to help NES develop its arrangements.

## Performance Framework

NES set out its longer term vision in its strategic framework for 2014-19 and it is now just over halfway through this timeframe. The strategic framework sets out NHS Education for Scotland’s ambitions across five broad themes as follows:



The way by which these themes will be delivered is set out in the Local Delivery Plan (LDP) which articulates the outcomes that NES is aiming to achieve. It is pleasing to note the clear links between the strategic framework and the LDP.

## Performance measurement

Performance reports are provided to the Board meetings on a quarterly basis. These reports are based around the five themes that are included in the strategic framework and the LDP. This is a helpful basis on which to report to the Board, as it provides comfort that the organisation’s strategic vision is being delivered on the ground.

NES has specified 62 ‘impact outcomes’ which set out what it is trying to achieve against the five strategic themes.

Examples of these ‘impact outcomes’ are:

- More open and honest conversations to improve performance, sustain good performance and tackle poor performance.
- Better team leadership and collaborative working through team development, staff engagement and performance management.

Although these impact outcomes are relatively general, they are supported by a large number of performance targets which set out what will be done to achieve the desired outcomes. By way of example, the two impact outlines set out above are underpinned by four and seven targets respectively. This framework has led to a large number of impact outcomes and performance targets as shown overleaf:



# Value for Money

## Delivering value for money

Theme	Outcomes	Targets
An excellent workforce	14	95
Improved quality	10	97
New models of care	14	128
Enhanced educational infrastructure	10	57
An improved organisation	14	145
<b>Total</b>	<b>62</b>	<b>522</b>

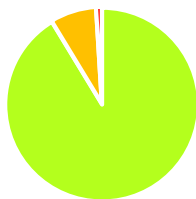
Performance management systems require significant amounts of staff time to keep them operational, especially when there are over five hundred targets being monitored.

The performance of NHS Education for Scotland at the end of the third quarter of 2016/17 was reported to the Board in March 2017 using the ‘normal’ red-amber-green system where:

- **Red** = progress against the target has not been satisfactory
- **Amber** = progress against the target has not been fully satisfactory
- **Green** = progress against the target has been satisfactory

The reported performance was as follows:

Quarter 3 Performance



■ Green (91%) ■ Amber (8%) ■ Red (1%)

Given the baseline level of performance, with 91% of targets being assessed as satisfactory and only 1% being unsatisfactory, there may be scope to reduce the number of targets used – but also making those that remain more focussed and ‘SMART’:

- Specific
- Measurable
- Agreed upon
- Realistic
- Time-based

## Performance reporting

As noted earlier, quarterly performance reports are taken to the Board meetings. These set out the overall performance of the organisation against the targets that are in place.

Reporting is by exception and there is detailed commentary on the performance to date on each target that has been assessed as ‘amber’ or ‘red’.

We did note that:

1. There are slight delays in reporting information to the Board. For example, the performance to December 2016 was considered by the Finance and Performance Management Committee in February 2017 before being reported to the Board in March 2017. Whilst we recognise that internal checking of data and reviews of the reports need to take place, such delays can hinder the Board’s ability to take prompt remedial action and a simplification of the performance management system might facilitate more timely reporting.
2. The performance reports to the Board include an explanation for the small number of targets where the performance was ‘red’ or ‘amber’ but there was no information about what was being done – or needed to be done – to bring the performance back into line.

## Performance reporting

The November 2016 letter from the Scottish Government which commented on the 2015/16 Annual Review concluded that NES demonstrated an impressive performance whilst meeting its key targets across a vast range of activities.

The letter also specifically noted the performance in digital transformation and the integration of health and social care.

# Appendices

	Page
A- Audit adjustments	27
B: Follow up on prior year recommendation	28
C- Action plan	29
D- Reminder of responsibilities	31
E-Audit Fees	32
F Letter of representation	33



# A: Audit Adjustments

Set out below is a summary of uncorrected and corrected misstatements.

## Uncorrected misstatements

	SOCNE £000	Balance Sheet £000	SOCTE £000
None			

## Corrected misstatements

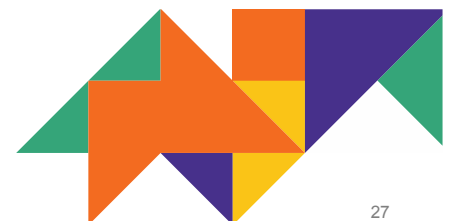
	SOCNE £000	Balance Sheet £000	SOCTE £000
VAT liability adjustment Dr Accruals CR Provisions	- - -	559 (559)	- -
This relates to the £559k VAT liability that NES is contesting with HMRC.			

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some minor disclosure enhancements to the performance and accountability reports and the annual accounts including:

- Additional disclosure surrounding the basis for determining that an intangible asset has an indefinite useful life
- Comments on control issues and an overall conclusion in the Governance Statement

There were no material/significant disclosure misstatements identified we wish to bring to your attention.



## B: Follow up on prior year recommendation

We have undertaken a follow up of the recommendation raised by the previous external auditors (Deloitte). The results of our work are outlined below:

### Journal authorisation

Deloitte recommended that NES ensures that all journals are reviewed prior to posting.

### Status: Not implemented

The journals process still allows for journals to be posted prior to authorisation, and discussions with finance staff confirmed that this is still common practice due to timing constraints. We will work with the Board to ensure a pragmatic solution to this recommendation.



Fully implemented



Partially implemented



Not implemented

# C: Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

Area	Recommendation	Priority	Management Response
Accounts and Annual Report production	After discussions with ourselves, NES should review its closedown and accounts / Annual Report production timetables for 2017/18.	Medium	<b>Response:</b> A task level 'prepared by client list' will be agreed at the planned Audit Review meeting in July 2017. Based on this we will review our timetables to ensure they are appropriate <b>Timescale:</b> 31 July 2017 <b>Action Owner:</b> Head of Finance
Performance report	Consider the use of visual aids to help make the performance report more accessible and understandable.	Low	<b>Response:</b> Some changes were made to the 2016/17 report and this will be built into next year's processes. <b>Timescale:</b> January 2018 <b>Action Owner:</b> Head of Planning
Finance reports to the Board	Review the contents of the finance reports to the Board and assess whether additional information would better meet the Board's needs.	Medium	<b>Response:</b> We will review reporting of Savings Plans and making a clearer link between Finance and Performance reporting. <b>Timescale:</b> November 2017 <b>Action Owner:</b> Director of Finance
National Fraud Initiative	Complete the NFI self-assessment questionnaire and develop an action plan to address any gaps in the arrangements that were identified.	Medium	<b>Response:</b> The questionnaire will be completed and an action plan developed. <b>Timescale:</b> October 2017 <b>Action Owner:</b> Head of Finance
2017/18 budget	The Board should ensure that any unidentified savings for 2017/18 are identified promptly and progress against their achievement is adequately monitored.	High	<b>Response:</b> Already part of the planned approach to budget monitoring in 2017/18. <b>Timescale:</b> Immediate <b>Action Owner:</b> Executive team
Medium term financial planning	Keep assumptions regarding future funding under review and maintain dialogue with key partners.	High	<b>Response:</b> Already part of the planned approach to budget monitoring in 2017/18. <b>Timescale:</b> Immediate <b>Action Owner:</b> Director of Finance

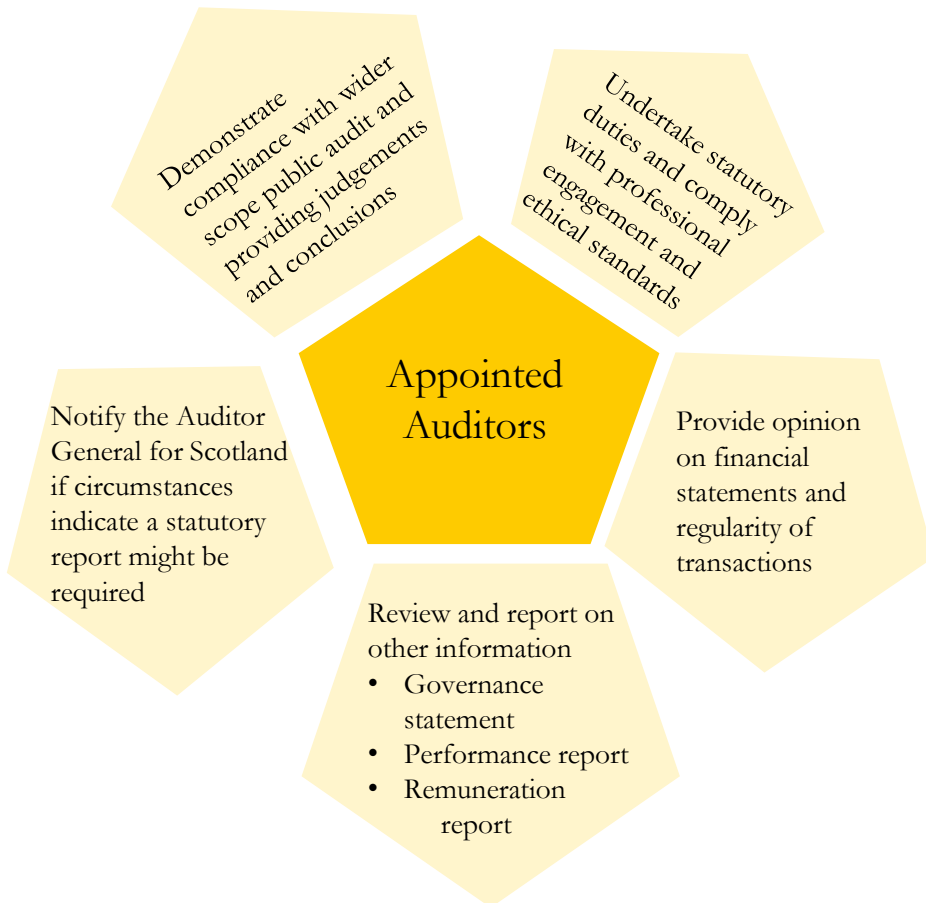
# C: Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

Area	Recommendation	Priority	Management Response
Performance management - targets	Review the targets in place with a view to: <ul style="list-style-type: none"> <li>reducing the number measured;</li> <li>making those that remain 'SMART'; and</li> <li>making the provision of performance information more timely.</li> </ul>	Medium	<p><b>Response:</b> <i>Considered as part of the Annual Planning process. Specific attention will be given to ways in which we can continue to further promote the use of SMART targets.</i></p> <p><b>Timescale:</b> October to December 2017</p> <p><b>Action Owner:</b> Director of Planning</p>
Performance management - reporting	Include a commentary on what is being done / needs to be done to address performance against targets that has been assessed as 'red' or 'amber'.	Medium	<p><b>Response:</b> <i>The level of detail to be provided will be discussed with the Finance &amp; Performance Management Committee and the Board</i></p> <p><b>Timescale:</b> September 2017</p> <p><b>Action Owner:</b> Director of Planning</p>

# D: Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISAs and the Code and may not be all that exist.*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.*



## E: Audit Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services at NHS Education for Scotland in 2016/17. There have been no variations to the fees included in our audit plan.

Service	Fees £
External Audit Remuneration	50,760
Pooled Costs	8,160
Contribution to Audit Scotland costs	2,590
Contribution to Performance Audit and Best Value	2,920
<b>2016/17 Fee</b>	<b>£64,430</b>





# E: Letter of Representation

Below is the Letter of Representation which the Board should sign on 29 June 2017

Grant Thornton UK LLP  
110 Queen Street  
Glasgow  
G1 3BX

29<sup>th</sup> June 2017

Dear Sirs

## **NHS Education for Scotland**

### **Financial Statements for the year ended 31 March 2017**

This representation letter is provided in connection with the audit of the financial statements of NHS Education for Scotland for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We acknowledge our responsibilities under the National Health Service (Scotland) Act 1978 for preparing financial statements, which give a true and fair view, and for making accurate representation to you.
- ii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iii. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the 2016/17 FReM.
- v. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the 2016/17 FReM requires adjustment or disclosure have been adjusted or disclosed.
- vi. In calculating the amount of income to be recognized in the accounts from the NHS organisations we have applied judgement, where appropriate, to reflect the appropriate amount of income expected to be received by the Board in accordance with the Accounting Standards and 2016/17 FReM.
- vii. We are of the opinion that it is appropriate to prepare the Board's financial statements for the year ended 31 March 2017 on a going concern basis.



# E: Letter of Representation

## Information Provided

- viii. We have provided you with:
  - a) 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;
  - b) additional information that you have requested from us for the purpose of your audit; and
  - c) unrestricted access to persons within the Health Board from whom you determined it necessary to obtain audit evidence.
- ix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- x. 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.
- xi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Board and involves:
  - a) management;
  - b) employees who have significant roles in internal control; or
  - c) others where the fraud could have a material effect on the financial statements.
- xii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Board’s financial statements communicated by employees, former employees, regulators or others.
- xiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xiv. We have disclosed to you the identity of the Board’s related parties and all the related party relationships and transactions of which we are aware.

## Approval

The approval of this letter of representation was minuted by the Board meeting on 29<sup>th</sup> June 2017.

### Signed on behalf of the Board

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....





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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

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