

NHS Fife

Annual Audit Plan 2017/18



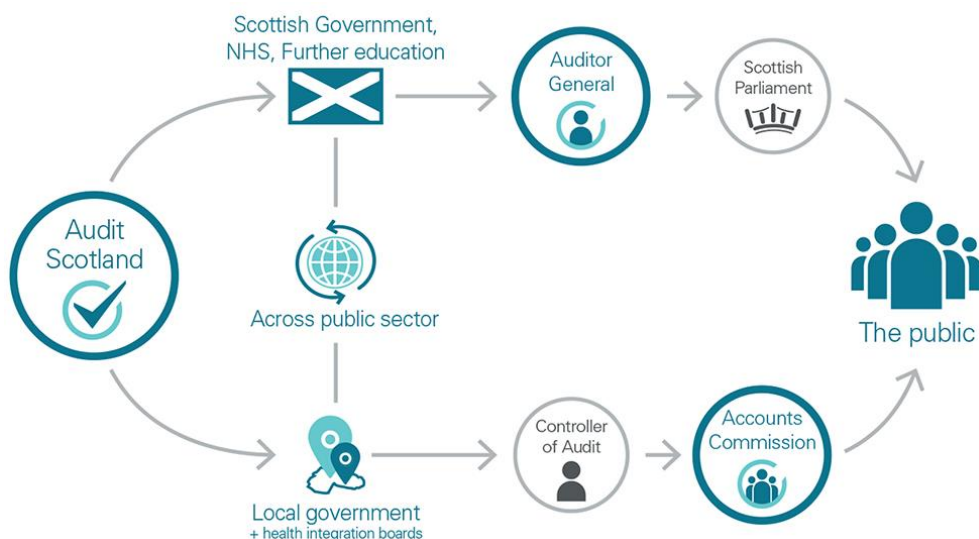
 AUDIT SCOTLAND

Prepared for NHS Fife
December 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.
2. 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

3. 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 Fife. 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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls/ management bias</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>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments including holiday pay accrual and backdated energy costs in Phase 3 of Victoria Hospital. Evaluation of significant transactions that are outside the normal course of business. Use of data analytics and substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.

Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over expenditure</p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 and we are required to consider the risk of fraud over expenditure in NHS Fife. Significant expenditure items include FHS, pay and non-pay expenditure.</p>	<ul style="list-style-type: none"> Internal controls over expenditure systems operate effectively. Effective budgetary control by management. Fraud reports are regularly monitored and information across Scotland is routinely shared. There are a range of measures in place to prevent and detect fraud, including: the Scheme of Delegation; Standing Financial Instructions; Standards of Business Conduct; Financial Operating Procedures; Anti-Fraud, Theft and Corruption Policy and the Whistleblowing Policy. The board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks 	<ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches. Obtain assurances from the NHS Scotland Counter Fraud Service. Use of data analytics to identify high risk items and exceptions for substantive testing.
<p>3 Transactions with Fife Health and Social Care Integration Joint Board (FIJB)</p> <p>FIJB has a significantly later reporting deadline for the annual accounts than NHS Fife. There is a risk that the IJB transactions and any balance arising from the risk share arrangement to be included in NHS Fife's accounts may not be confirmed prior to the agreed date for submission of the unaudited accounts.</p> <p>There is also a risk that the year end position in the IJB is materially misstated and leads to an error in the figures reported by NHS Fife.</p>	<ul style="list-style-type: none"> Regular meetings with the IJB's Chief Finance Officer to discuss the financial position. Consideration will be given to the "lessons learned" from the first year of full operation of the IJB to ensure these are applied. The narrative commentary on the financial position reported in the integrated Performance Report (IPR) throughout the year includes the potential impact on forecast outturn of the risk share arrangement with Fife Council. 	<ul style="list-style-type: none"> Early discussions with board officers on the year end timetable and process for timely agreement of IJB transactions and balances between the three partner bodies. Confirm transactions and balances have been agreed by the partner bodies.
Wider dimension risks		
<p>4 Financial position</p> <p>The 2017/18 NHS Fife Local Delivery Plan (LDP) identified a break-even position. This</p>	<ul style="list-style-type: none"> The agreed efficiency savings targets of £29.2m have been removed from opening budgets on a 	<ul style="list-style-type: none"> Undertake specific audit work on financial reporting and budgeting. This includes reviewing the

Audit Risk	Source of assurance	Planned audit work
<p>position is based on the best case scenario. Year end projections, as at September 2017, show the mid range forecast is a £4.4 million overspend and the prudent position identifies an overspend of £8.3 million. The year-to-date position, which shows a £5.1 million overspend, reflects the fact that a number of planned savings have yet to take effect.</p> <p>Detailed explanations of variances for individual budget lines is restricted to the “run rate” (i.e. budget prior to removal of efficiency savings) variance. Savings variances are identified but not fully explained.</p> <p>There is a significant risk that the board is unable to deliver the savings needed to achieve its statutory break-even target which may have a negative impact on performance.</p>	<p>recurring basis to enable more transparent budget monitoring.</p> <ul style="list-style-type: none"> • Timely reporting of the year to date financial position and forecast outturn in the IPR. • Forecast outturn includes three scenarios – best case, mid range and prudent positions. • A formal quarterly financial review process has been implemented in 2017/18. This process tests the assumptions used in the financial planning process and supports the board’s approach for further clarity and transparency on the financial context. 	<p>reliance on, and nature of, non-recurrent savings and the effectiveness of in-year budget reporting.</p> <ul style="list-style-type: none"> • Monitor the development of the budget projection outturn for the remainder of the financial year. • Consider any contingency actions if financial balance is not to be achieved.
<p>5 Financial sustainability</p> <p>An initial five year financial outlook for the period 2018 to 2023 was presented to the Finance, Performance and Resources Committee in October 2017. This outlook identifies a shortfall in the 2017/18 recurring savings of £19 million which increases the budget gap for 2018/19 to £27 million. There is also a budget gap for the following four years. The recent announcement on the public sector pay cap has not been modelled in this version of the financial outlook as it is assumed that any increase in cost beyond the 1% pay uplift would be funded through an additional allocation from the Scottish Government.</p> <p>Given the extent of the savings required there remains a significant risk that the board will continue to rely on non recurring savings and will be unable to deliver the savings required to achieve a balanced</p>	<ul style="list-style-type: none"> • Financial sustainability is monitored through the Board Assurance Framework (BAF). • The financial position reported in the IPR identifies recurring and non recurring savings. • The Joint Transformation Group (JTG) was established in June 2017 to drive joint redesign. The Transformation Huddle oversees the work of a number of subgroups established to drive the delivery of key transformation projects. • A report on the Clinical Strategy, one year after approval in October 2016, was presented to the Clinical Governance Committee and the Finance, Resources and Performance Committee. This update includes progress with implementing transformation projects. 	<ul style="list-style-type: none"> • Undertake specific audit work on financial planning. This work will review scenario planning, planning assumptions and transformation. • Review internal audit reports on Transformation Programme Governance and Transformation Programme Projects.

Audit Risk	Source of assurance	Planned audit work
<p>budget on a recurring basis.</p>	<ul style="list-style-type: none"> The financial outlook for the five period from 2018 to 2023 will be refined as the year progresses, alongside the development of the Regional Delivery Plan (RDP) for the East of Scotland. A medium to long term financial strategy is due for completion by 31 March 2018. 	
<p>6 Transparency and openness</p> <p>Our 2016/17 assessment of the register of interests identified that NHS Fife was only meeting basic practice in most areas, for example the register:</p> <ul style="list-style-type: none"> only included interests held by Board members is difficult to locate on the website. <p>In addition the papers for the Finance, Performance and Resources Committee meetings in November 2016, March 2017 and June 2017 are not yet publicly available.</p> <p>The 2016/17 remuneration report disclosures for NHS Fife were restricted to members of the Board.</p> <p>There is a risk that the information made available to the public and other stakeholders is not sufficiently open and transparent.</p>	<ul style="list-style-type: none"> The Standards of Business Conduct for all staff and associated Declaration Form of Staff Interests and Gifts/Hospitality was sent to Directors and Department Heads in April 2017. The form is required to be completed by all members of staff so the Central Register of Hospitality and Interests for 2017/18 can be updated. This is a rolling register that gets uploaded to the website on an annual basis. The area of NHS Fife's website that displays agendas and supporting papers for Board and Committee meetings has been simplified to ease accessibility. There is a clear process for ensuring papers are uploaded in a timely manner with one individual allocated to each committee to ensure the information relating to its activities are kept up to date. The design of the Boards and Committees area of the website has been streamlined and is now linked directly from the website home page. The Director of Finance will consider additional disclosures in the remuneration report to include members of the Executive Director's Group. 	<ul style="list-style-type: none"> Update the assessment of register of interests. Review the disclosures in the remuneration report. Review of 2016/17 annual report and accounts on reporting financial performance and highlight areas for consideration in 2017/18 to improve the accounts.
<p>7 ICT environment</p>	<ul style="list-style-type: none"> Information governance is 	<ul style="list-style-type: none"> Undertake specific ICT

Audit Risk	Source of assurance	Planned audit work
<p>The current ICT environment increases the vulnerability of NHS Fife to cyber attacks and other ICT security threats, as a result of:</p> <ul style="list-style-type: none"> • current staff capacity and capability in the eHealth department • lack of a detailed inventory of all ICT/ digital systems, required to deliver Board services • a bi-monthly rather than a monthly patching policy for PCs, as recommended in response to the WannaCry virus in May 2017, is in place • infrequent patching of a number of servers • the Microsoft and Windows environments which are no longer supported or support is being withdrawn shortly. <p>There is a risk that an increase in the vulnerability to ICT security threats could lead to the loss of data or the corruption of systems.</p>	<p>identified, in the BAF, as a linked operational risk.</p> <ul style="list-style-type: none"> • EHealth risks are recorded on the Datix risk management system and the eHealth risk register has recently been updated. • The Property Assets and Management Strategy (PAMS) identifies the current IT infrastructure and the vulnerabilities/ concerns which will need to be addressed going forward. • Quarterly eHealth report to the Finance, Performance and Resources Committee. • Information Security Management System (ISMS) Plan which includes the steps required to comply with the new General Data Protection Regulation (GDPR). • EHealth governance arrangements have been revised with a new Digital Health and Care Board (DHCB) and subgroups reporting to the DCHB. • EHealth Business Continuity and Disaster Recovery Framework Plan and eHealth Business Continuity & Disaster Recovery Operational Procedures. • Completed questionnaire submitted to the Scottish Government in response to the national Cyber Resilience Action Plan. 	<p>audit of data security and information governance, including review of:</p> <ul style="list-style-type: none"> – eHealth risk register to ensure all relevant risks are included – the action identified to mitigate risks included in the risk register – progress in implementing action and reporting arrangements – compliance with Scottish Government cyber security arrangements

Reporting arrangements

4. 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.
5. 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.
6. We will provide an independent auditor's report to NHS Fife, Scottish Parliament and the Auditor General for Scotland setting out our opinions on 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.

7. 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. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	7 December 2017	14 December 2017
Interim Report	10 May 2018	17 May 2018 (provisional)
Draft Annual Audit Report	15 June 2018	22 June 2018 (provisional)
Independent Auditor's Report	26 June 2018	26 June 2018 (Board meeting – provisional date)

Audit fee

8. The proposed audit fee for the 2017/18 audit of NHS Fife is yet to be determined and is subject to agreement of Audit Scotland's budget with the Scottish Commission for Public Audit. In determining the audit fee we will take account of the risk exposure of NHS Fife, 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 4 May 2018.
9. 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

10. 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.
11. 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

12. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice

(including supplementary guidance) and guided by the auditing profession's ethical guidance.

- 13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

14. 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 Fife and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Fife 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.

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

- whether they give a true and fair view of the state of affairs of NHS Fife and its group at the year end and net expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income
- whether the auditable part of the remuneration and staff report has been properly prepared in accordance with relevant legislation and other reporting requirements
- whether the information in the performance report and governance report is consistent with the financial statements.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

17. We calculate materiality at different levels as described below. The calculated materiality values for NHS Fife 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 estimated gross expenditure for the year ended 31 March 2018.	£12.5 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.	£6.3 million
Reporting threshold (i.e. clearly trivial) – 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 (limited to £100,000).	£100,000



18. We review and report on other information published with the financial statements including the performance report, annual governance statement and the remuneration report. Any issue identified will be reported to the Audit and Risk Committee.

Timetable

19. 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 annual accounts with complete working papers package	4 May 2018
Latest date for final clearance meeting with Director of Finance and other relevant Officers	4 June 2018
Issue of letter of representation and proposed independent auditor's report	15 June 2018
Agreement of audited unsigned annual accounts	15 June 2018
Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	15 June 2018
Independent auditor's report signed	26 June 2018 (provisional)

Internal audit

20. 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 FTF Audit and Management Services (FTF).

Adequacy of Internal Audit

21. We have undertaken a formal review of internal audit and have concluded that FTF, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Areas of Internal Audit reliance

22. To support our audit opinion on the financial statements we plan to place formal reliance on substantive testing included in the internal audit review of B25/18 Financial Process Compliance, in the following areas.

- staff costs – accuracy and occurrence of permanent changes and the accuracy of gross pay calculations
- expense payments – accuracy and occurrence.

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

- B10/18 Transformation Programme Governance
- B16/18 Transformation Programme Projects
- B12/18 Risk Management
- B15/18 Strategic Planning
- B22/18 Savings Programmes
- B23/18 Financial Planning
- B27/18 Service Contract Expenditure
- B28/18 Service Contract Income

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

25. 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 will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

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

Governance and transparency

27. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Fife can demonstrate that the governance arrangements in place are appropriate and operating effectively
- 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.

Value for money

28. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Fife can provide evidence that it is demonstrating value for money in its achievement of performance targets.

Strategic plan for the five year appointment

29. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6

Strategic plan

Dimension	2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Financial planning – including scenario planning , planning assumptions and transformation	Financial planning	
Financial management	Financial reporting and budgeting	Financial reporting and budgeting	
Governance and transparency	ICT environment Assessment of Register of interests		
Value for money	Patient Management System (PMS)/ Trakcare - high level overview prior to more focussed work in 2018/19	PMS/ Trakcare Prescribing costs	Staff recruitment/temporary staff costs

Independence and objectivity

30. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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.

31. The appointed auditor for NHS Fife is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor 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 Fife.

Quality control

32. 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.
33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
34. 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 appointed auditor.

Adding Value

35. Through our audit work we aim to add value to NHS Fife. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well NHS Fife has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

NHS Fife

Annual Audit Plan 2017/18

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