



# NHS Education for Scotland

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**External Audit Annual Report to the Board and the Auditor General for  
Scotland for the financial year ended 31 March 2019**

Board Meeting 27 June 2019

**Joanne Brown**  
Engagement Leader

**Angelo Gustinelli**  
Audit Manager



# Our audit at a glance



Our materiality was set at £9 million (£9 million within the Audit Plan).

We did not identify any adjustments to the financial statements. Disclosure amendments were discussed and agreed. These were not considered significant or material in nature.



We have fulfilled our responsibilities under International Standards on Auditing (ISAs) (UK) and the Code of Audit Practice throughout our work and this final report to the Board and the Auditor General for Scotland concludes our work.



Significant audit risks identified at planning were: management override of controls; and the risk of fraud in expenditure recognition. Our planning risk assessment remained unchanged. We did not identify any matters in these two areas that we wish to draw to your attention.

## An audit underpinned by quality



In accordance with the Code of Audit Practice we have reconfirmed our assessment that a wider scope audit for NES is not required given the nature of NES as an organisation and the complexity of its activities and financial transactions. However, we do conclude on financial sustainability and the governance statement disclosures, as required by the Code.



We have issued an unmodified audit opinion on the annual report and accounts.



Our work was completed in accordance with the timetable agreed. The draft financial statements produced by management were available at the start of the audit and were of a good quality. Good working papers were provided to support the audit process and our queries were responded to quickly.

We thank management for their support and assistance during our work.

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## Adding value as your External Auditors

First and foremost our objective is to ensure we deliver a quality external audit which complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective whilst being underpinned by our focus on audit quality, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of NES's arrangements, alongside how we have shared relevant practices with the Audit Committee and Management during the year.

We have continued to build on our working relationship with NES Management, for example reviewing proposed accounting treatments with regards to lease incentives early on in the audit process.

We have made a positive contribution at the Audit Committee during the year, sharing our wider NHS and public sector experience and have supported NES in how they make use of relevant Audit Scotland publications to inform future NES arrangements.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the NHS Education for Scotland (NES) Board, in respect of the Board's role as those charged with governance. In accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented and discussed at the NES Audit Committee on 13 June 2019. A final set of annual report and accounts was presented to the Board, alongside this final version of our report for approval, on the 27 June 2019.

We would like to thank NES management and in particular the finance team for an effective year-end audit process and all their support and assistance in the audit process during the year.

## Structure of our report

As set out in our Audit Plan (January 2019) we consider in accordance with the Audit Scotland Code of Practice that NES meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of NES's arrangements as follows:

Financial statements, including the Performance Report and Accountability Report (including governance statement) – Section 1

Disclosures in the governance statement and financial sustainability of NES - Section 2 and 3

## Our Opinion

For the financial year ended 31 March 2019 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of NES
- Other prescribed matters (which include the audited information in the remuneration report)

## The audit process

We received a good, complete set of financial statements on 13 May 2019 including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the finance team were very quick to support our audit and respond to our queries.

We have no unadjusted differences to report.

We noted minor disclosure and formatting changes which resulted from our review as well as the accounts workshops, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

We note the positive outcome of the accounts workshop in developing the Board members understanding of the annual report and accounts.



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# The audit of the annual report and accounts



Materiality has been set at £9 million (this equates to 2% of gross expenditure) and performance materiality was set at £6.8 million (75% of materiality). This was what we set out in our audit plan and what we consider to be material to the user of the annual report and accounts.

We are required to report any errors identified greater than £250,000. We are pleased to report no errors above this threshold were identified.



We only identified one minor adjustment, alongside management, to the draft financial statements based on our work. Disclosure amendments were discussed and agreed. These are not considered to be significant or material.



We have issued an unmodified audit opinion on the annual report and accounts, including the wider information contained and the regularity opinion.

The audited parts of the Directors Remuneration Report are free from error.



Testing provided assurance on our identified areas of significant risks, as set out in our plan and there were no errors found during the course of our testing over these areas (risk of fraud in expenditure recognition and management override of controls).

We rebutted the risk of fraud in revenue recognition, given the revenue streams and we are satisfied this approach is still appropriate.

Our audit work was completed in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice . Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:



- they give a true and fair view
- they have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements, e.g. Performance Report and Governance Statement, is consistent with the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance

### Audit approach and materiality

1. Our audit approach was set out in our annual audit plan presented to the Audit Committee on the 17 January 2019. Overall materiality has been set at £9 million, approximately 2% of gross expenditure and performance materiality is set at £6.8 million, 75% of materiality. Our planned approach has not changed from that set out in our plan.
2. We report to management any audit difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).
3. We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) and our conclusions are set out in this report under key audit matters.



### Internal control environment

4. During the year we sought to understand NES's overall control environment (design) as related to the financial statements.

In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
  - Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls
5. Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.



### Internal Audit

6. As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, NES's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.
7. The opinion of Internal Audit for the year was:  
*"In our opinion NES has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks."*



The findings of internal audit are not inconsistent with our knowledge and experience of NES.

## Key audit issues

### Responding to significant risks

8. Within our external audit plan (2018/19) we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

#### Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls
The Risk	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2018/19, NES's material revenue streams related to Scottish Government resource funding. Given the nature of this income being well forecast and agreed directly with SGHD we rebut the presumed risk of material misstatement over income. However, as set out in Practice note 10 (revised), for public sector entities there is a presumed risk of misstatement of expenditure. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. As financial performance targets are measured on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.</p>
Our response	<ul style="list-style-type: none"> <li>Performed cut off testing at year end on pre and post year end transactions.</li> <li>Walkthroughs of the controls and procedures around material expenditure streams and validation of key controls where appropriate.</li> <li>Consideration of the Regularity of expenditure incurred to ensure alignment with the type/nature of NES as an organisation.</li> <li>Confirmed the completeness and accuracy of balances at the year end.</li> </ul>	<ul style="list-style-type: none"> <li>A focus on our understanding of how/where management override of controls may occur</li> <li>Review of the controls over journal entries</li> <li>Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies</li> <li>Reviewing unusual and/or significant transactions</li> </ul>
Our conclusion	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> <li>We did not identify any exceptions in our cut-off testing for year-end expenditure.</li> <li>We did not identify any exceptions in the completeness and accuracy of balances at the year end.</li> <li>Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of NES (regularity).</li> </ul>	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> <li>There was no evidence of management override in our testing of journals.</li> <li>NES financial statements do not include material judgements or estimates. We considered the lease dilapidation and the CLO provision, with no matters to report.</li> <li>We did not identify any unusual or significant transactions in year.</li> </ul>

## Narrative elements of your annual accounts

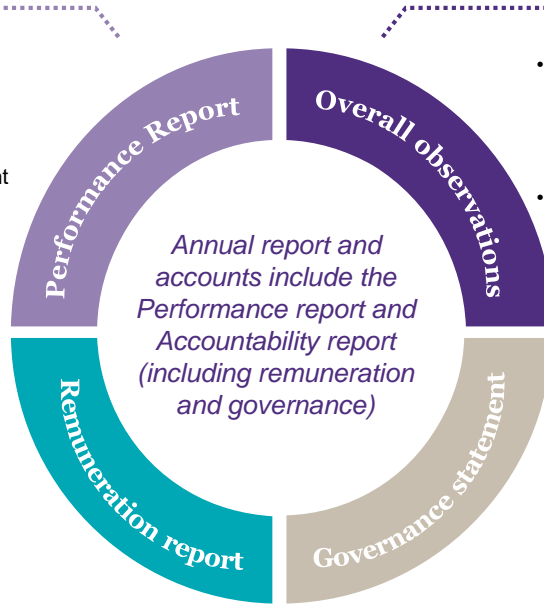
9. We have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

### Performance Report

- The accountability report is in line with our understanding of NES, in particular the vision and strategic priorities of NES.
- The Accountable Officer's statement is clear and easy to read.
- Risks are articulated and aligned to NES's internal risk reporting.

### Remuneration and Staff Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.
- The Executive and Non-Executive members reflected in the report have been correctly identified in accordance with FReM.



### Overall observations

- NES continue to look at how the "front end" of the Annual Report and Accounts are presented and have improved graphics to provide a better visual representation of performance.
- There have been substantial changes to the notes that support the expenditure within the Financial Statements, which have helped to provide clarity and improve transparency of expenditure.

### Accountability Report

- As required by the FReM the Governance statement is included in the Accountability report.
- No material issues of governance in year that are required to be reported
- The governance statement is in accordance with the FReM/SPFM.
- The statement is supported by individual assurances to the Accountable Officer over internal controls.

## Key aspects of your financial statements

10. We consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised our conclusions below.



### Commentary:

NES's accounting policies are consistent with the NHS Manual of Accounts. The 2018/19 financial statements reflect the adoption of two new International Financial Reporting Standards (IFRS): IFRS 9 and IFRS 15. While the introduction of IFRS 9 resulted in some minor disclosure changes to the accounts, Management's assessment of these standards was that they did not have a material impact on the financial statements. We agree with Management's conclusion.

We identified and gained comfort over the key estimates and judgement, notably the lease dilapidation provisions.

In relation to the audit risk of fraud in respect of expenditure we tested NES's cut off arrangements in particular and identified no issues in accruals or prepayments which could indicate a higher risk of potential fraud. There are no post balance sheet events or legal uncertainties at year-end.

NES, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2019/20 and have in place a 3 year financial framework (medium term framework) albeit at this stage only receive an annual budget allocation from the Scottish Government.

Given NES's role as a National Health Board within NHS Scotland providing education and training to the Health Sector, as well as considering the statutory functions NES have to enable it to fulfil its remit, we agree with management's assertion that NES meets the going concern criteria.



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# Commentary on NES Financial arrangements



The NES Budget for 2019/20, approved by the Board on 28 March 2019, underpins the achievement of NES strategic objectives and outlines the financial and operational challenges faced by the Board. The budget highlights that NES would receive no general uplift to the NES recurrent baseline budget again in 2019/20.

A significant amount of the NES budget is committed to paying the salaries of doctors, dentists, clinical psychologists and others while they are in training, and therefore fixed in nature.



Management have identified an initial budget gap of £13.602 million. Efficiency savings and continuation of agreed non-recurrent measures has reduced the gap to £4.879 million. NES recently received confirmation that this gap would be fully funded by the Scottish Government.

The 2019/20 financial planning assumptions appear reasonable and in line with what we would expect based on our knowledge of NES and prior year arrangements.



Following discussion at the NES Executive Team, no additional contribution to the National Boards collaborative £15 million recurring savings target is included (to which NES contributed £2.5 million recurrently in 2018/19). However, given that it is likely that the collective target will not be met in full for 2018/19, NES may be asked for a further contribution in 2019/20.



NES are focused on how as an organisation they demonstrate value for money. On an annual basis they undertake a value for money self assessment, across all the core areas of best value, linked to evidence to demonstrate responses and areas identified for further development. This assessment is discussed at the Audit Committee (June 2019) and linked to the Audit Committee's wider considerations before recommending the Annual Report and Accounts to the Board. This is a positive and helpful report that supports the annual governance arrangements.



NES's workforce plan is reviewed annually to ensure its alignment with updated local, regional and national plans. As in previous years, the plan is in line with NES's vision of 'Quality Education for a Healthier Scotland' and their mission 'to provide education that enables excellence in health and care for the people of Scotland'. NES, with partners, has also made a substantial contribution to the development of the National Board Plan 'Changing to Deliver 2019-23', specifically in the areas of digital innovation and the development of a sustainable NHS workforce.

## Financial planning 2019/20

11. The Board approved the budget for 2019/20 on 28 March 2019. The financial plan was developed using a detailed budgeting approach to ensure that forecast income and expenditure was developed, based on key activities planned for the year. Financial forecasts are reviewed during the year to ensure these remain appropriate.
12. The financial plan states that NES available funding is anticipated to be £439.215 million. Requirements submitted by directorates total £452.179 million which presents an initial funding gap of £12.964 million. This gap has primarily arisen from a historic underlying funding gap in Training Grades. Efficiency savings, continuation of agreed non-recurrent measures and allocating income from other sources where possible has reduced the gap to £4.879 million. NES recently received confirmation that this gap would be fully funded by the Scottish Government.

	Training Grades Budget		Other NES Budget		Total £m	Considered reasonable
	Recurring £m	Non recurring £m	Recurring £m	Non recurring £m		
Anticipated budget available	245,719	0	193,496	0	<b>439,215</b>	✓
Directorate budget submissions 2019/20	(258,397)	0	(193,269)	(513)	<b>(452,179)</b>	✓
<b>Initial Gap</b>	<b>(12,678)</b>	<b>0</b>	<b>227</b>	<b>(513)</b>	<b>(12,964)</b>	
Requests for additional funding	0	0	(422)	(216)	<b>(638)</b>	✓
<b>Budget Gap</b>	<b>(12,678)</b>	<b>0</b>	<b>(195)</b>	<b>(729)</b>	<b>(13,602)</b>	
<b>Proposed actions to reduce gap</b>						
Recruitment Lag	0	0	0	1,500	<b>1,500</b>	✓
Training Grade funding	0	6,676	0	0	<b>6,676</b>	✓
Other Income	0	0	0	247	<b>247</b>	✓
Procurement savings	0	0	0	300	<b>300</b>	✓
<b>Total Potential Funding Available</b>	<b>0</b>	<b>6,676</b>	<b>0</b>	<b>2,047</b>	<b>8,723</b>	
<b>Remaining Gap</b>	<b>(12,678)</b>	<b>6,676</b>	<b>(195)</b>	<b>1,318</b>	<b>(4,879)</b>	
Additional funding confirmed by Scottish Gov.					<b>4,879</b>	
<b>Balanced budget</b>					<b>0</b>	

13. In addition to the expected recurring baseline funding above it is anticipated that over £49 million will be received in 2019/20 on a non-recurrent basis. The majority of this funding will be through Scottish Government and includes;
  - Medical Training Grade expansion posts - £7 million
  - Mental Health - £7 million
  - Pharmacy Pre-Reg training - £6.4 million
  - Anticipated Medical Education Package Gap - £5.4 million
14. The financial plans in place are based on reasonable assumptions and are appropriate based on our understanding of NES. NES will continue to monitor these forecasts alongside the actual financial position during 2019/20 to ensure they still remain realistic and achievable.

## National Board Collaboration

15. Following discussion at Executive Team no additional contribution to the National Boards collaborative recurrent £15 million savings target is included (to which NES contributed £2.5 million recurrently in 2018/19). However, given that it is likely that the collective target will not be met in full for 2018/19, NES may be asked for a further contribution in 2019/20.
16. Per the NES Financial Plan 2019/20 – 2021/22, the agreed NES contribution of £2.5 million is stated, however £4 million is shown by Scottish Government as being removed from the 2018/19 baseline. As the full £15 million recurrent savings required in 2018/19 has not yet been met, the balance has arbitrarily been allocated across Boards. The split of the outstanding target is currently under discussion with the other National Boards and the Scottish Government however, for the purpose of planning the 2019/20 budget it has been assumed that NES will make no further contribution above the agreed £2.5 million.

## Governance arrangements

17. NES has a stable governance structure with the Board supported by an established structure of standing committees of the Board with clearly defined remits including the Staff Governance, Remuneration, Educational and Research Governance, Finance and Performance Management, and Audit Committees. The Board meets regularly during the year to both set and monitor the delivery of the Board's strategic priorities. We found the level of reporting to the Board and its committees to be appropriate.
18. At the request of Scottish Government, NES established the NES Digital Service (NDS) in 2018/19 to develop a national digital platform, as set out in the Digital Health and Care Strategy for Scotland. This aligns with the digital solutions NES are already delivering to support workforce and business services. As a result an additional sub-committee of the Board, Digital Committee, was added to the governance structure in 2018/19 to provide and strengthen governance over NES Digital Activities. There have been two additional co-opted members added to this committee, one of whom has significant expertise in Digital development and implementation at scale.
19. The Board of NES completed the Board self-assessment in relation to the Blueprint for Good Governance. Board members considered the results of the self-assessment to be a fair reflection of the Board's performance and a sound foundation for further efforts to enhance corporate performance.
20. An action plan has been developed as a focussed and concise response to this self-assessment. The Board will oversee the delivery of the actions, with the expectation these will be completed by the end of 2019.
21. There were also two new non-executives added to the NES Board from 1 May 2019 to complement the skills of the existing Board.
22. David Garbutt, the NES Board Chair, is a member of the Corporate Governance Steering Group and is leading on the workstream: Training and development of Board members, using the wider expertise within NES to further develop training at a national level, including making use of the TURAS platform.

## Board effectiveness and transparency



23. The Board undertakes a regular assessment (every 18 to 24 months) of its own effectiveness to ensure that it is in line with current best practice. There are defined scheme of delegation and policies and procedures in place to ensure that there is clear understanding of respective responsibilities across NES.
24. NES demonstrate a commitment to transparent public reporting. Board minutes and supporting papers are published online as well as committee remits and a range of corporate publications detailing the Board's underlying performance and activities. This is an area NES will continue to review during 2019/20 alongside any national governance messages.

## Fraud and Irregularity

25. NES has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at NES during the course of the year and have confirmed this with management.
26. The Board participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. Of a total of 808 matches, 619 have been processed and 21 are currently under investigation. The majority of the processed items did not required investigation as they were within the risk tolerances.
27. We found NES's arrangements for participation in the NFI exercise during 2018/19 to be satisfactory. The Board has effective arrangements in place for the submission of data and investigation of potential matches.



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## Workforce planning

28. NES's workforce plan is reviewed annually to ensure its alignment with updated local, regional and national plans. NES, with partners, has also made a substantial contribution to the development of the National Board Plan 'Changing to Deliver 2019-23', specifically in the areas of digital innovation and the development of a sustainable workforce.
29. The National Health and Social Care Workforce Plan highlighted opportunities to develop a more consistent national approach to education, training and workforce development to help develop a more sustainable pipeline of skilled staff for health and care. NES are working with the Scottish Credit and Qualifications Framework Partnership, NHS Territorial Boards and the Higher and Further Education sectors to develop national commissioning and recognition of prior learning.
30. The Health and Social Care Workforce Plan sets out that better workforce data and planning is key to developing sustainable services. The development of a cloud-based data platform, which is now underway, will bring together existing workforce data which will support scenario planning for future workforce demand and supply. This will be essential, particularly related to future workforce uncertainty, in relation to Brexit (See Areas of wider scope focus 2018/19).



## EU Withdrawal

31. There are uncertainties surrounding the terms of the UK's withdrawal from the European Union and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for NES.
32. There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Board are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations.
33. We found that NES has incorporated the risk of EU withdrawal into its risk management arrangements, however it is noted that the main impact of a 'no deal' Brexit is likely to be felt by Territorial NHS Boards rather than directly by NES. NES had considered the potential consequences of EU Withdrawal through the completion Operational Readiness checklist. Overall, we conclude that NES is 'well prepared' for EU Withdrawal. Despite being well prepared for the implications of EU Withdrawal this is an area of ongoing development and continued uncertainty and therefore NES should continue to monitor its readiness against any future developments.



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# Appendices

**Audit adjustments**

**Action plan for 2018/19 external audit recommendations**

**Follow up of prior year recommendations**

**Fees, independence, fraud arrangements**

**Communication of audit matters with those charged with governance**

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# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

The only corrected misstatement was identified by the finance team and amended per the journals below:

Item	Dr (£'000)	(Cr) (£'000)	Description
	633		Accrued income
1		(633)	Accrual
			<i>Movement of £633k due to reallocation of £633k between debtors and creditors</i>

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## 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.

There were a number of minor disclosure adjustments to the draft accounts received for audit which were identified by the finance team through the ongoing review process and which resulted from accounts workshops. In addition, we noted minor disclosure and formatting changes which resulted from our review, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

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# Action plan for 2018/19 external audit recommendations and prior year follow up

From our audit work undertaken in 2018/19, we did not identify any risks or recommendations that we consider to be higher risk to NES and have therefore not raised any actions or recommendations in the current year.

We have followed up on prior year recommendations in the table below;

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## Prior year Recommendation

### National Boards collaboration

We note the future direction of travel in respect of the National Board's collaboration and the early work done by all the National Boards related to the creation of the plan and an initial five year financial framework.

In due course this work, and the various scenarios related to NES should be presented to the NES Board, particularly those that support NES in achieving medium term financial sustainability.

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## Management response

**Management response:** Agreed

**Action owner:** Director of Finance

**Timescale for implementation:**

In line with timescales agreed by the regional implementation leads, and will keep external audit updated during 2018/19.

**Follow up:**

Since the external audit report last year the position around national boards collaboration changed. National Boards will continue to work together to agree Target Operating models for four priority areas which will contribute to closing the current gap in the £15 million recurrent savings target. The Board continue to be updated on developments as they impact on NES.

Propose to close action as no longer relevant.

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# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	48,270
Pooled Costs	6,970
Contribution to Audit Scotland costs	2,910
Contribution to Performance Audit and Best Value	0
<b>2018-19 Fee</b>	<b>58,150</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed since our plan and our final fee was £58,150

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at NES.

As part of our audit work we are responsible for:

- Identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for NES this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in May 2019.
- Designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- Responding appropriately to any fraud or suspected fraud identified during the audit. None were identified in-year.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with NES to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.



# Communication of audit matters with those charged with governance (the Board)

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of NES and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought have an impact on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of NES accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section 1.</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation will be shared and signed by the Chief Executive when signing the financial statements. This is our standard, unmodified letter of representation</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified.</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unmodified opinion</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NES Management and the Audit Committee.

