

NHS Fife

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for NHS Fife
December 2019



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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value

3. We aim to add value to NHS Fife through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Fife promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks


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

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Review of accounting estimates. • Focused testing of accruals and prepayments including holiday pay accrual. • Evaluation of significant transactions that are outside the normal course of business. • Data analytics risk assessment of ledger transactions (including journals) and testing of these. • Testing of transactions after the year end.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Significant expenditure items include payments for independent primary care services and prescribed drugs – primary care which are made by Practitioner Services Division (PSD) on behalf of NHS Fife. This includes claims made by practitioners after issuing medicines and medical items to the public. We therefore identify the risk of fraud over expenditure for payments made by PSD on behalf of NHS Fife.</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 Risk of material misstatement caused by estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions and the note disclosures for commitments under Private Finance Initiative (PFI) contracts. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Valuations of all land and building assets are reassessed under a five year programme of professional valuations by the District Valuer and adjusted in intervening years to take account of movements in prices since the latest valuation. • All legal claims notified to NHS Fife are processed by the Scottish NHS Central Legal Office (CLO) who decide upon the risk liability and likely outcome of each case. • Settled claims are reimbursed by the scheme less a £25k “excess” fee. • A contribution rate is agreed with the CLO for the cost of NHS Fife’s participation in CNORIS. • PFI disclosures are based on the NHS 	<ul style="list-style-type: none"> • Review of reports from the District Valuer to confirm asset valuations. • Review the valuation process including engagement with the District Valuer. • Sample testing of indexation calculations. • Sample testing of CNORIS claims and associated reimbursements. • Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO. • Review assessment of the two PFI contracts.

 Audit Risk	Source of assurance	Planned audit work
	accounting model prepared by PricewaterhouseCoopers (PwC).	
<p>4 Risk of material presentation error in Note 3 – operating expenses</p> <p>The mapping of expenditure account codes in the ledger does not reflect the requirements of the Manual for the Annual Report and Accounts of NHS Boards. This is addressed by making several manual adjustments to the line entries in Note 3 – Operating Expenses.</p> <p>We are satisfied the financial statements accurately reflect the expenditure transactions posted to the ledger but there is the risk of a material presentation error in Note 3.</p>	<ul style="list-style-type: none"> The adjustments are made following an independent review of ledger postings by the Senior Financial Accountant. Adjustments are made consistently each year. 	<ul style="list-style-type: none"> Review of Manual for the Annual Report and Accounts of NHS Boards to ensure compliance with the disclosure requirements. Sample testing of significant manual adjustments to confirm they are reasonable and consistent.
Wider dimension risks		
<p>5 Financial management</p> <p>NHS Fife’s latest financial position to the end of October 2019 reflects an overspend of £7.6 million.</p> <p>The outturn position is forecast to be a deficit position of £5.8 million but there is potential for this figure to increase significantly to £14.6 million.</p> <p>The 2019/20 budget reporting is predicated on a number of high level assumptions including a reduction in risk share exposure on Fife IJB services for NHS Fife and increased non-recurring financial flexibility including unplanned slippage on allocations neither of which are guaranteed.</p> <p>There is a risk that NHS Fife delivers an overspend against its budget/ revenue allocation.</p>	<ul style="list-style-type: none"> Timely reporting of the year to date financial position and forecast outturn in the Integrated Performance and Quality Report (IPQR). Ongoing discussions with partnership bodies and the Scottish Government in relation to the risk share arrangement and financial recovery plans for the health board and IJB to address current year challenges. Funding request made to the Scottish Government to the value of the risk share impact. Detailed assessment of potential non-recurring financial flexibility to identify release of benefit to the financial position. 	<ul style="list-style-type: none"> Review financial budgeting and reporting including: assumptions supporting the increase in annual budget; progress with the delivery of savings; agreement of changes to the risk share arrangement; and reliance on financial flexibility. Monitor the development of the budget projection for the remainder of the financial year and the transparency of reporting to members. Consider any contingency actions if financial balance is not to be achieved. Review internal audit report B24/20 – Management of Savings Programme.
<p>6 Financial sustainability</p> <p>The 2019/20 NHS Fife Annual Operational Plan (AOP) identified an in-year budget gap of £2.6 million for 2019/20, £6.6 million for 2020/21 and £3.5m for 2021/22. This excludes the impact of any unmet legacy savings from previous financial years. £17.3 million recurring savings are required in 2019/20 as a result of unmet savings carried forward from the</p>	<ul style="list-style-type: none"> Financial sustainability and strategic planning, including transformation, is monitored through the Board Assurance Framework (BAF). Review of the Integration Scheme in 2020/21, as per the five year cycle given in the relevant legislation. This provides 	<ul style="list-style-type: none"> Undertake work on financial planning including: progress with medium/ long term financial plans; progress with transformation, including partnership arrangements; identifying and monitoring key actions agreed in response to the Deloitte report; and savings

	Audit Risk	Source of assurance	Planned audit work
	<p>previous year. This means the current and future financial gap exceeds £20 million.</p> <p>As at October 2019, £4.5 million savings (26%) had been identified on a recurring basis.</p> <p>NHS Fife has reported that some efficiency savings will be met through transformation, but it has been slow to provide specific details of the transformation programme and associated cost savings.</p> <p>There is a risk that transformational change does not progress as planned. This could result in NHS Fife being unable to deliver the savings required to achieve a balanced budget on a recurring basis over the three year planning cycle.</p>	<p>an opportunity to revisit and amend the current risk share arrangement.</p> <ul style="list-style-type: none"> • Deloitte LLP engaged to drive forward a robust programme of savings across Acute Services Division (ASD). ASD are preparing a detailed action plan to implement the findings from the review. • Establishment of a series of Performance & Accountability Review meetings. • Refreshed approach established for a system wide transformation programme to support redesign; reduce unwarranted variation and waste; and to implement detailed efficiency initiatives. • Appointment of interim Project Management Officer (PMO) Director to advise on the governance arrangements across health and social care. 	<p>proposals to ensure financial balance.</p>

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition in 2019/20 because the vast majority (over 95%) of the board's income and funding is from Scottish Government or other public sector bodies.

Reporting arrangements

6. 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.
7. 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.
8. 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 during the audit.

9. 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 annual accounts by 30 June to meet the consolidation timetable.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	20 December 2019	9 January 2020
Management Report	7 May 2020	14 May 2020
Independent Auditor's Report	24 June 2020	24 June 2020 (Board meeting)
Annual Audit Report	11 June 2020	18 June 2020 (ARC meeting)

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2019/20 audit of NHS Fife is £157,600 (2018/19: £154,510). In determining the audit fee we have taken 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 annual accounts on 11 May 2020 with working papers available from 1 May 2020.
11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

12. 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.
13. The audit of the annual accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

14. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.
15. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

Annual accounts

- 16.** The annual accounts, which include the financial statements, will be the foundation and source for most 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.
- 17.** 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.



Statutory other information in the annual accounts

- 18.** We also review and report on statutory other information published within the annual accounts including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been properly prepared in accordance with relevant legislation and other reporting requirements in our independent auditor's report.
- 19.** We also read and consider any information in the annual accounts other than the financial statements for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

- 20.** 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 opinions in the independent auditor's report.
- 21.** 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	Amount
Planning materiality – This is the figure we calculate to assess 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 2020.	£13 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 60% of planning materiality.	£8 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£200,000



Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	11 May 2020 (working papers available from 1 May 2020)
Latest date for receipt of assurances from Group's Component Auditors	22 May 2020
Consideration by management of Service Auditors reports	2 June 2020
Latest date for final clearance meeting with Director of Finance and other relevant officers	2 June 2020
Issue of Letter of Representation, proposed independent auditor's report, and draft Annual Audit Report to NHSFife Audit and Risk Committee	11 June 2020
Agreement of audited unsigned annual report and accounts	11 June 2020
Independent auditor's report signed	24 June 2020
Issue of Annual Audit Report to those charged with governance (the Board)	24 June 2020

Internal audit

23. 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, provided by FTF Audit and Management Services (FTF) wherever possible and as part of our planning process we carry out an annual assessment of the internal audit function. We concluded that FTF operates in accordance with the PSIAS.

24. From our initial review of internal audit plans we plan to place formal reliance on internal audit work reported in B27/20 – Financial Process Compliance in respect of the following areas:

- Sample testing of expenditure
- Bank reconciliations
- Accounts payable reconciliations.

25. In respect of our wider dimension audit responsibilities we plan to consider the following internal audit reports:

- B10/20 – A Blueprint for Good Governance – action plan
- B11/20 – Assurance Framework and Assurance Mapping
- B24/20 – Management of Savings Programme.

Audit dimensions

26. 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

27. 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 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

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

Governance and transparency

29. 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

30. 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

31. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the areas of proposed audit work listed in [Exhibit 6](#) (this will be subject to annual review).

Exhibit 6 Strategic plan

Dimension	2019/20	2020/21
Financial sustainability	Financial planning Transformation and partnership working	Financial planning
Financial management	Financial reporting and budgeting	Financial reporting and budgeting

Dimension	2019/20	2020/21
Governance and transparency	Follow up prior year action points	
Value for money	Follow up prior year action points	Equalities and diversity

Source: Audit Scotland

Best Value

32. The Accountable Officer of NHS Fife has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

33. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the annual accounts 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

34. The engagement lead (i.e. 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

35. 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.

36. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

37. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

NHS Fife

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