

Audit planning guidance

Health – 2014/15 audits



Prepared for Auditors
October 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Planning guidance – health

Key outputs and dates

Date	Activity	Contact	Ref
05/11/14	Submit initial fee claim (firms)	Owen Smith	GP 44
05/11/14	Submit audit partner/manager contact details & billing address for invoice purposes	Owen Smith	GP 9
07/01/15	Submit December progress report (firms)	Owen Smith	GP 69
02/03/15	Submit annual audit plan	Owen Smith	GP 10
07/04/15	Submit March progress report (firms)	Owen Smith	GP 69
30/06/15	Certification deadline - submit ISA 260	Owen Smith	7
30/06/15	Submit consolidation templates and assurance statement to SGHSCD	Neil Cameron	
30/06/15	Submit excel version of final accounts	Neil Cameron	31-33
30/06/15	Submit NFI audit questionnaire	Owen Smith	36-37
06/07/15	Submit June progress report (firms)	Owen Smith	GP 69
31/07/15	Submit minimum data set	Angela Canning	22
31/07/15	Submit annual audit report to those charged with governance (at the latest)	Owen Smith	7-8
31/07/15	Submit all remaining outputs of the audit	Owen Smith	GP 12-17
28/08/15	Submit final fee claim (firms)	Owen Smith	GP 49-51
05/10/15	Submit September progress report (firms)	Owen Smith	GP 69

Notes:

- This summary captures all of the key audit activity and associated outputs in the year
- **All** audit outputs, including those listed above and any additional audit outputs identified in local annual audit plans, should be emailed to outputs@ishare.audit-scotland.gov.uk (firms) or added to ishare (ASG) (except hard copies of signed accounts - see paragraph 9)
- **GP** refers to the General Audit Planning Guidance document
- **Contacts** are who to contact if you have any queries regarding the activity

Introduction

1. This guidance is for the audit of bodies in the health sector. It should be considered along with the general planning guidance that applies to all sectors.

Main points/changes from last year

- the remuneration rate used to calculate fees has been increased by 2% based on Audit Scotland's scale uplift
- the process for agreeing fees introduced for 2011/12 remains unchanged for 2014/15. Auditors should see the general audit planning guidance for further details
- certification and annual reporting deadlines are 30 June and 31 July respectively
- all audit outputs, including any additional audit outputs identified in local annual audit plans, should be emailed to outputs@ishare.audit-scotland.gov.uk (firms) or added to ishare (ASG)
- auditors should consider the review of elements of Best Value in health bodies, and may wish to use toolkits developed by Audit Scotland
- Performance Audit & Best Value Group will advise auditors in due course regarding performance audit work required in 2014/15 (paragraph 35)
- auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audits
- following an Audit Scotland review of audit materiality we have set a cap for clearly trivial thresholds and now require materiality disclosures in the annual audit plan (see paragraphs 13-15)
- additional disclosures in the annual audit report, reflecting revisions to ISA 700, are being recommended (see paragraphs 11-12)

Code of Audit Practice and core audit requirements

2. Apart from performance information published under the direction of the Accounts Commission and statutory Best Value audit, which are specific to local authorities, the responsibilities of auditors described in the Code of Audit Practice generally apply to health audits. However, see paragraph 8 of the general audit planning guidance which is relevant when planning smaller special health boards.
3. Auditors' responsibilities for national performance audit in the health sector are governed by supplementary guidance issued by Audit Scotland. Performance Audit & Best Value (PABV) Group will advise appointed auditors if anything further is required beyond what is identified in this guidance.
4. The core audit can be defined as the work that Audit Scotland provided for when setting the 2014/15 indicative fee range for a health body, i.e. the audit work required to:
 - provide the Independent Auditor's Report on the financial statements (including any assurance statements on consolidation templates and summary financial information)

- provide the annual report on the audit addressed to the body and the Auditor General
 - communicate audit plans to those charged with governance
 - provide reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI)
 - identify significant matters arising from the audit, alert Audit Scotland accordingly and support the production of statutory reports as required
 - complete the work detailed at **appendix 1**
 - Undertake work requested by Audit Scotland (e.g. providing information for the NHS financial performance report and NHS current issues reports for the Auditor General; a review of elements of Best Value in boards and feedback on the local response to national performance audit reports in boards) or local performance audit work, up to a specified value in each body.
5. Any work commissioned from auditors above and beyond the core audit work will incur additional audit fees. When commissioning such work Audit Scotland will indicate whether the additional fee is to be separately agreed with the audited body or to be invoiced to PABV Group assuming that the work cannot be accommodated by varying the fee agreed with the body within the indicative fee range.

Sector meetings

6. Audit Scotland hosts meetings of all auditors involved in the health sector throughout the year, and one annual all-sector audit planning conference. Auditors are expected to attend and contribute to these events.

Certification and annual reporting deadlines

7. The certification deadline for 2014/15 health audits is **30 June 2015**. Auditors should aim to submit the audited financial statements and the annual audit report to members and the Auditor General at the same time to facilitate early identification of section 22 reports under the Public Finance and Accountability (Scotland) Act 2000.
8. All auditors should seek to achieve this for 2014/15 audits. Where this is not possible auditors should inform Audit Scotland as soon as possible and consider **31 July 2015** as the deadline for the submission of the annual audit reports to the Auditor General. These should be provided electronically in PDF format to assist publication on Audit Scotland's web-site.
9. Auditors should submit **two hard copies of the signed accounts** to:
- Owen Smith
Audit Scotland
110 George Street
Edinburgh EH2 4LH
10. The number of signed audited accounts required by each audited body should be agreed locally. For other queries about audit certification and reporting the contact point is **Owen**

Smith in Audit Strategy (osmith@audit-scotland.gov.uk). **Appendix 2** provides further details on the accounts laying process.

Audit Reporting: annual audit reports

11. ISA (UK and Ireland) 700 *The independent auditor's report on the financial statements* was revised in 2013 and has led to changes to auditor reporting requirements in the private sector. Currently, just two of our audited bodies (Scottish Water and Scottish Canals) must produce a more detailed independent auditor's report in compliance with paragraphs 19A and 19B of the ISA; this is because both bodies have voluntarily adopted the UK Corporate Governance Code (listed companies must apply this code).
12. Audit Scotland is keen to enhance auditor reporting in the public sector in the interests of transparency; enhanced reporting will improve stakeholder understanding of the audit and the issues considered by the auditors. Our annual audit reports are published on our web site: their public availability and content make them an ideal vehicle for the enhanced reporting required of listed companies per paragraphs 19A and 19B of ISA 700. We therefore expect that annual audit reports for 2014/15 will include the following information:
 - a description of those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team
 - an explanation of how the auditor applied the concept of materiality in planning and performing the audit, including specifying the materiality threshold for the financial statements as a whole
 - an overview of the scope of the audit, including an explanation of how it addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality
 - the audit findings from work on each risk of material misstatement or a statement that there is nothing to report.

Audit Materiality

13. A recent Audit Scotland review of audit materiality found a wide variation in materiality percentages (for overall and performance materiality as well as clearly trivial thresholds) being applied, with many auditors using the maximum percentage permissible under their own guidance and/or applying the same percentage across all their audited bodies. These findings have raised concerns regarding the amount of work being carried out and the degree of judgement being applied on audit engagements.
14. Audit Scotland expects auditors to take into account the public interest factor inherent to the work carried out for the Auditor General and the Accounts Commission and apply judgement when determining overall materiality, performance materiality and clearly trivial thresholds, in compliance with ISA 320 Materiality in planning and performing an audit. Risk considerations specific to an audited body should be reflected in the performance materiality figure which

should then be used to scope areas of the financial statements that will be subject to audit, determine sample sizes and evaluate variances arising from analytical procedures. The threshold for clearly trivial above which auditors should accumulate misstatements for reporting and correction to audit committees is a matter for auditor judgement but should not exceed £250,000.

15. In the interests of transparency, auditors must report the materiality figures being used (overall and performance), and the clearly trivial thresholds for accumulating and reporting misstatements, in their audit plans. This information is important for audit committees in fulfilling their oversight responsibilities.

Best Value

16. In March 2011 Ministers issued guidance to Accountable Officers on their duty to ensure that arrangements are in place to secure Best Value in public services.
(<http://www.scotland.gov.uk/Publications/2011/03/22154607/0>)
17. Audit Scotland's Best Value toolkits (<http://www.audit-scotland.gov.uk/work/toolkits/>) may be used by auditors to inform audit work. The selection of the toolkit(s) should be based on an appropriate consideration of local circumstances and risks. These toolkits are subject to regular review to ensure that the material and contents remain accurate and effective.
18. The contact for Best Value Audit work is **Ronnie Nicol**, Assistant Director, Performance Audit & Best Value Group (rnicol@audit-scotland.gov.uk) 0131 625 1868.

Community Planning Partnership Audits

19. The joint Scottish Government/COSLA Statement of Ambition for Community Planning sets out the key role that community planning and community planning partnerships (CPPs) should play in providing the foundation for effective partnership working, within which wider public service reform initiatives will happen. CPPs are a vehicle for delivering more integrated local public services, an increased focus on prevention and better outcomes for communities.
20. Appointed auditors will participate in CPP audit scoping work for any CPPs carried out in 2014/15, drawing on their existing knowledge of the council, health board and other public bodies, focusing in particular on their participation in and contribution to the local community planning process. Any additional work required from appointed auditors to support individual CPP audits will be agreed on a case-by-case basis with PABV Group.
21. The contact for community planning partnership audits is **Antony Clark**, Assistant Director, Performance Audit & Best Value Group (aclark@audit-scotland.gov.uk) 0131 625 1857).

NHS financial performance report

22. Information required for the 2014/15 NHS financial performance report will be agreed at a sector meeting in February/March 2015. This will take the form of a minimum data set which

should be factually agreed and sent on to Audit Scotland by 31 July 2015 (i.e. with the annual audit report). Auditors should continue to attend information sharing workshops with PABV to support the annual audits and the NHS financial performance overview report. It is anticipated that there will be 2 workshops prior to June 2015.

Correspondence and statutory reports

23. Audit Scotland may from time to time request auditors to support preliminary enquiries and investigations into matters raised with Audit Scotland through correspondence or where significant matters arise which may lead the Auditor General to consider making a statutory report.
24. The arrangements for agreeing additional work and the process for related fee claims are set out in the general audit planning guidance.
25. Audit Scotland is currently reviewing the arrangements for correspondence handling and the accounts review process and is keen to engage with appointed auditors on this. Further guidance will be issued to appointed auditors as the new arrangements are developed.
26. The main contact is **Angela Canning**, Assistant Director, PABV (acanning@audit-scotland.gov.uk) 0131 625 1835. Other PABV contacts can be found here: https://x18sp.extranet.audit-scotland.gov.uk/auditprocurement/planning/Guidance/PABV_Place_and_Portfolio_Responsibilities.pdf (for firms) and here: http://ishare/PABV/PABVport/Gen_Port_Docs/PABV_Place_and_Portfolio_Responsibilities.docx (for ASG).

Intelligence and impact

Audit intelligence

27. Audit Scotland's Corporate Plan 2012-15 reinforces our commitment to effective knowledge management. This is crucial for the monitoring of risk and to inform an audit response where appropriate. A revised set of audit risk and assurance reporting arrangements is being implemented this year. Auditors in the health sector are required to produce current issue returns in February and August 2015 based on the new risk categories below:
 - AGS/Accounts Commission interest
 - Parliamentary/Elected Members interest
 - Ministerial interest
 - Financial management
 - Transparency
 - Financial sustainability
 - Value for money

28. Auditors should continue to supply intelligence to Audit Scotland during the year on emerging issues and risks in audited bodies. Auditors are encouraged to contact Audit Scotland colleagues on an informal basis where issues are emerging. Links for PABV contacts are at paragraph 26. These contacts can offer advice to auditors and provide additional context from across the sector which can help with risk assessment and the consideration of any audit response.
29. Timely reporting of issues also allows Audit Scotland to have a good level of awareness across the public sector and to inform the Auditor General and the Controller of Audit of relevant issues. This assists with the production of overview reports.
30. In particular appointed auditors are encouraged to make early contact with Audit Scotland where there are issues in the audited body which may result in a statutory report. These issues may arise directly from the annual audit process or may be identified during on-going engagement with the audited body.

Analytical Review Database

31. The TSU co-ordinates the compilation of a database of financial information from the audited accounts of NHS boards. The database is for auditors to use for analytical review purposes, enabling inter-board comparisons of items of account, key ratios and year on year analytical review if the comparative data is populated (optional).
32. Auditors will wish to use the database of 2013/14 financial information in planning their 2014/15 audits. This is an audit output and as such an excel version of the final accounts should be provided to Audit Scotland in the usual manner to enable the compilation of the 2014/15 database.
33. The contact point for the Analytical Review Database is **Neil Cameron** in the TSU (ncameron@audit-scotland.gov.uk, 0131 625 1797).

Local impact of national performance audits

34. Audit Scotland's Corporate Plan 2012-15 reinforces our commitment to monitoring the impact of our work. The impact of national performance audits may be followed up in a number of ways, including through local impact returns completed by auditors. The contact in PABV for general questions relating to impact is **Mark Roberts**, (MRoberts@audit-scotland.gov.uk 0131 625 1613).
35. Information on the performance audit follow-up audit programme and the role of appointed auditors will be circulated once the performance audit programme has been agreed with the Auditor General and the Accounts Commission later in the year. Alongside the targeted follow-up work, PABV is developing a dataset of baseline information about finance departments, the control environment and financial constraints and pressures facing public bodies that it considers useful to capture consistently across all sectors. The dataset will be developed in consultation with Audit Strategy, Audit Services and the firms and circulated later in the year. The estimated auditor resource requirement is two days.

National Fraud Initiative (NFI)

36. Health bodies participating in the NFI 2014/15 exercise must submit data in October 2014 as per the [latest instructions](#) and matches for investigation will be communicated to them at the start of 2015. Audit Strategy would expect bodies to investigate all recommended matches plus further matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2015 and the results recorded on the NFI system. Some investigations may continue beyond this date.
37. Auditors should monitor their audited bodies' participation and progress during 2014/15 and into 2015/16 and include references to NFI in their annual reports for both years as part of their consideration of arrangements for the prevention and detection of fraud. This year Audit Strategy will issue auditors with an Auditor NFI Pack to assist them in monitoring audited bodies' engagement with the NFI exercise and run training. Auditors are required to complete an NFI audit questionnaire covering all 2014 match investigation during the period January to June 2015 and return to **Owen Smith** in Audit Strategy by 30 June 2015. This will reflect the activity undertaken by audited bodies following receipt of matches for investigation. More information is provided on this work at **Appendix 1**.

Shared systems and functions

38. The Appendix to auditors' letters of appointment explains how the audit of shared systems or functions should be dealt with under fee for the audit. Audit Scotland strongly encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other auditors, agreeing an appropriate division of work and sharing audit findings. The arrangements referred to below, however, merit special mention.
39. Auditors of groups and service arrangements should consider using the annual Audit Scotland Transparency & Quality report to assist in documenting their assessment of significant component auditors' professional competence where the firm is one of the seven firms that carry out audit work for Audit Scotland. Paragraph 19 of ISA 600 (*Special Considerations - Audits of Group Financial Statements including the work of component auditors*) requires the group auditor to assess the component auditor's independence, competence and the regulatory environment in which they work.
40. Auditors should consider the service auditor reports referred to below, and any associated external audit report, in addition to their findings from previous years when reviewing health board systems. Service audit reports are prepared covering the following national systems/arrangements: PSD (NHS NSS host, service auditor currently Scott Moncrieff); National IT (NHS NSS host, service auditor currently Scott Moncrieff); and the NSI (NHS Ayrshire and Arran host, service auditor currently PwC). Other service audit reports may be provided by boards to cover arrangements they have in place with individual boards. For example NHS NSS issues a service report to NHS HIS, NHS 24 etc. for payroll services they provide. Auditors will want to confirm that they obtain adequate assurance where such arrangements exist.

NHS National Services Scotland – primary care payments and National IT contract

41. NHS National Services Scotland procures service audits each year, covering primary care payments and the National IT contract. Practitioner and Counter-Fraud Services is a strategic business unit of NSS, responsible for calculating and making payments to primary care practitioners on behalf of health boards. This covers payments for general medical services, general dental services, general ophthalmic services and general pharmaceutical services and accounts for more than 20% of total NHS expenditure in Scotland. The National IT contract covers the services provided by ATOS Origin Alliance e.g. controls over the server supporting eFinancials.
42. NSS's management provides assurances in the form of service auditor reports, issued in May each year to the health boards concerned, setting out details of the services covered and the control objectives and controls intended to be in place over the processing of payments. This document reports on whether controls were designed to achieve the control objectives and whether the control procedures were in operation during the year. This document is made available to health boards and their auditors by NSS.
43. The external auditor responsible for NSS reviews the work of the primary care payments service auditor and reports on this review to other health external auditors in May each year.

NHS Ayrshire & Arran - National Single Instance

44. NHS Ayrshire & Arran host a National Single Instance (NSI) eFinancials service on behalf of all Scottish health boards. The Board issues a service audit report on the controls operating over the financial ledgers in the year, including the Real Asset Management system.

Internal Audit

45. Audit Scotland is aware of two significant internal audit consortia within NHSScotland:
 - Fife, Tayside and Forth Valley Audit and Management Services (audit appointments held by Audit Scotland staff (NHS Fife and NHS Forth Valley), PWC (NHS Tayside) and Scott Moncrieff (NHS Lanarkshire)); and
 - Lothian and Borders NHS internal audit services (audit appointments held by Audit Scotland staff (NHS Lothian) and Scott-Moncrieff (Borders HB)).
46. Audit Scotland auditors have the lead role in reviewing the internal audit arrangements in both consortia.

Guidance on auditing financial statements and related matters

47. Audit Scotland will publish a note for guidance to provide auditors with guidance on planning and performing the audit of the 2014/15 health financial statements. The note will highlight the areas that represent generic risks of material misstatement in the financial statements, and will provide guidance on:

- the opinion on the regularity of income and expenditure, the part of the remuneration report that is audited, and the consistency of the directors' report and operating and financial review with the financial statements
 - matters on which auditors are required to report by exception, e.g. on the governance statement
 - providing assurance on the consolidation templates
 - the opinion on the consistency of the summary financial information within the 'glossy' annual report with the full financial statements.
48. A separate note for guidance containing model auditor's reports based on the requirements of ISA 700 but adapted for boards will be published in due course.
49. The contact point for notes for guidance is **Neil Cameron** in the TSU (ncameron@audit-scotland.gov.uk, 0131 625 1797).

Health and social care integration

50. The Public Bodies (Joint Working)(Scotland) Act 2014 requires health boards (and council partners) to jointly prepare an integration scheme setting out the integration model to be adopted (i.e. lead agency or Integrated Joint Board). Integration schemes must be submitted to Scottish Ministers for approval by 1 April 2015 and integration arrangements must be in place by 1 April 2016. The Scottish Government envisages that some integration arrangements will be operational earlier than 1 April 2016.
51. For 2014/15, appointed auditors will want to engage with their audited bodies to monitor progress being made towards integration and include references in their annual audit reports. Specifically, auditors will want to know the date that any integrated joint boards will become operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnerships.

Audit service quality surveys

52. Audit Strategy will be issuing audit service quality questionnaires to all audited bodies in the health sector (and FE sector) during autumn 2014 in order to seek feedback on the audit service provided in 2013/14. These surveys are an important component of our quality assurance work. Views are sought from chief financial officers, chief executives and audit committee chairs. The results from these biennial surveys are reported to Audit Scotland's Board and Audit Committee and summaries are provided to the auditors and audited bodies.

Appendix 1: NFI 2014/15

The NFI in Scotland	
Bodies to which this applies	All boards and special boards except Mental Welfare Commission.
Brief description of work and requirements of auditors	Monitor and report on bodies' participation in NFI in Scotland.
Lead person within Audit Scotland	Owen Smith in Audit Strategy (osmith@audit-scotland.gov.uk).
Nature of output(s) required from auditor	For 2014/15: <ul style="list-style-type: none"> • Complete a questionnaire by 30/06/15 to record the auditor's assessment of the audited body's NFI arrangements, participation, investigation and reporting of matches returned to it in January 2015. • Reference in 2014/15 and 2015/16 annual audit reports.
Use to which output(s) will be put by Audit Scotland	Mainly for national report planned for June 2016 but may also inform the need for visits to bodies by the central NFI team.
Is the output to be formally agreed with the client?	Factual accuracy of outputs to be agreed as normal.
Estimated auditor resource requirement and staff mix (or fee)	For 2014/15 about 3 days depending on body and extent of NFI output. Preferably senior auditor or above, overseen by Manager/Partner.
When will audit tools/further guidance be made available by Audit Scotland?	The auditor questionnaire will be issued to staff in February 2015 and should form part of the audit documentation to support audit work on the arrangements for the prevention and detection of fraud at audited bodies. An auditor NFI pack and training will be available in early 2015 to support this work.
Timetable for output(s):	NFI Audit Questionnaire to be returned to Audit Strategy by 30 June 2015.

Appendix 2: End of audit arrangements

NHS audited accounts are laid before the Scottish Parliament. Under the Public Finance and Accountability (Scotland) Act 2000, Scottish Ministers must lay a copy of each Health Board's signed accounts including the audit certificate and arrange for them to be published within 9 months of the March year-end. In practice, SGHSCD arranges for the accounts to be laid.

Health Boards must not publish their accounts until after this has been done. NHS auditor submission requirements are set out in the table below – note that the auditor is responsible for compiling the outputs for SGHSCD and these should be sent to Alan Morrison, Scottish Government Health Directorates, St Andrew's House, Regent Road, EDINBURGH EH1 3DG.

	Audit Scotland (Audit Strategy)	SGHSCD	NHS Board	ASG	Firms
Hard copy of signed accounts	2*	4 (3 unbound)	To agree locally	1 unless further copies agreed locally*	1 unless further copies agreed locally*
Electronic PDF version of accounts	1	1		**	***
Excel version of accounts	1	1		**	***
Consistency certificate for excel spreadsheet	1	1		**	***
ISA 260	1	n/a		**	***
Annual Audit report	1	n/a		**	***

* Hard copies of the accounts should be delivered to Owen Smith, 110 George Street, Edinburgh, EH2 4LH.

All audit outputs should be: **added to ishare 'NHS XXX- Financial Audit - Outputs' section (ASG); *** emailed to outputs@ishare.audit-scotland.gov.uk (Firms)