

NHS Forth Valley

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for NHS Forth Valley
January 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

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

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • A sound system of budgetary control, including monthly budget monitoring is in place. • Standing orders and financial regulations are regularly updated. • Segregation of duties are in place 	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income/expenditure</p> <p>NHS Forth Valley receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure</p>	<ul style="list-style-type: none"> • A sound system of budgetary control, including monthly budget monitoring is in place. • 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 	<ul style="list-style-type: none"> • Analytical procedures on income/expenditure streams. • Detailed testing of revenue/expenditure transactions focusing on the areas of greatest risk. • Audit work on the National Fraud Initiative matches. • Obtain assurances from the NHS Scotland Counter Fraud Service.

Audit Risk	Management assurance	Planned audit work
	Conduct; Financial Operating Procedures; and the Whistleblowing Policy.	
<p>3 Integration Joint Boards (IJBs)</p> <p>The Clackmannanshire & Stirling IJB and the Falkirk IJB will be consolidated into NHS Forth Valley accounts in 2016/17.</p> <p>The production of the NHS Forth Valley group accounts is dependant on all income, expenditure, and year end balances between partners being accurate and being agreed by 31 May 2017 at the very latest to meet the NHS financial reporting timetable.</p> <p>A significant proportion of the Board's budget is managed by the IJBs. There is a risk that overspends by the IJB could impact the Board's ability to break even.</p>	<ul style="list-style-type: none"> • A detailed year end timetable will be in place incorporating each partner's timescales for feeding into the year end accounts. • The Board's share of funding to the IJB was subject to due diligence (as was the other partners' share of IJB funding). • The integration scheme between partners outlines how to address under and overspends. • The Board and IJB s95 officers work closely to ensure there is a clear understanding of each IJB's financial position and any corrective action required to deliver services within available resources. • Internal audit review of the governance arrangements. 	<ul style="list-style-type: none"> • Consideration of the consolidation process. • Testing that the allocation of transactions is in line with the integration scheme. • Confirmation that year end balances have been agreed by the partner IJBs. • Monitoring of IJB financial position against target and ensure that underspends or overspends are accounted for in accordance with the integration scheme.
<p>4 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. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Asset base is reviewed on a rolling programme by the Board's valuers. • Effective budget monitoring by management. • Regular reporting to the Board 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of provisions and accruals. • Review of accounting policies.
Wider dimension risks		
<p>5 Financial sustainability</p> <p>NHS Forth Valley has developed a 5 year financial plan to 2020/21 which outlines the need to identify and achieve recurring efficiency savings to deliver a break even outturn position.</p> <p>In the short term, recurring savings of 6% and 5% are required in 2016/17 and 2017/18 respectively to achieve break even. These are proving difficult to achieve. Delivering recurring efficiency savings while striving to sustain primary care services and meet the Scottish Government's waiting time targets is increasingly challenging and represents a risk</p>	<ul style="list-style-type: none"> • A detailed savings plan was developed in consultation with internal heads of department. Performance against agreed targets is monitored monthly. 	<ul style="list-style-type: none"> • Undertake audit work on financial management including reviewing financial monitoring reports and delivery of savings plans. • Attendance at committee meetings and review of papers to assess progress and impact in delivering savings planned to date.

Audit Risk	Management assurance	Planned audit work
<p>to the financial sustainability of the health board.</p>		
<p>6 Workforce planning</p> <p>Spending on non-core staff costs increased in 2015/16. Continued reliance on bank and agency staff is not sustainable and there is a risk that this could have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability.</p> <p>The board continues to encounter difficulty in achieving the sickness absence target of 4%, which has an impact on the cost of non core staff.</p>	<ul style="list-style-type: none"> Sickness absence is reviewed monthly via performance reports. Directorate performance is monitored at Directorate reviews. Staff Governance Committee monitor and review actions and plans to improve performance. The Medical Director requires to approve all medical agency staff. Requests for the use of agency staff require to be authorised by the Director of Finance. The monthly Finance Report separately monitors spending on non core staff costs. 	<ul style="list-style-type: none"> Monitor non core staff costs and obtain reasons for any increases. Assess whether non core staff savings which were incorporated into the 2016/17 budget were met.
<p>7 Performance targets</p> <p>In common with all other NHS boards, performance in relation to the eight key waiting time targets and the target to minimise delayed discharges are proving difficult to achieve alongside ongoing financial challenges.</p> <p>The Board is close to meeting many of these targets but is significantly adrift in two covering: Child and Adolescent Mental Health Services (CAMHS) waiting times; and 12 week outpatients –percentage of patients seen for outpatient appointment earlier than 12 weeks following referral. It is also significantly adrift of the target for Psychological therapy based treatment waiting times.</p> <p>There is a continued risk that performance standards and key targets are not being achieved and the delivery of quality affordable services is not sustained.</p>	<ul style="list-style-type: none"> Performance against standards / targets is monitored monthly across the organisation and reported to the Performance and Resources Committee. This is monitored through the corporate risk register. 	<ul style="list-style-type: none"> Review core performance reports to assess progress in achieving standards and targets, and actions being taken to improve performance. Attendance at committee meetings and review of papers to assess progress.

Reporting arrangements

3. 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.
4. 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.
5. We will provide an independent auditor's report to NHS Forth Valley, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
6. 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. NHS Forth Valley is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	13 January 2017	20 January 2017
Interim Management Report (may be reported in quarterly progress report)	24 March 2017	24 March 2017
Annual Audit Report including ISA 260 requirements	2 June 2017	9 June 2017
Signed Independent Auditor's Report	9 June 2017	9 June 2017
National Fraud Initiative (NFI) questionnaire	30 June 2017	TBC

Audit fee

7. The proposed audit fee for the 2016/17 audit of NHS Forth Valley is £152,050. This will be communicated with management as soon as possible. In determining the audit fee we have taken account of the risk exposure of NHS Forth Valley, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 1 May 2017.
8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Forth Valley and the associated risks which could impact on the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Forth Valley will include these in the financial statements
- assessing the risks of material misstatement in the financial statements, and the impact of consolidation of Clackmannanshire & Stirling IJB and Falkirk IJB into the group accounts.
- 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.

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

- whether they give a true and fair view of the financial position of NHS Forth Valley and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information which comprises the performance report and accountability report is consistent with the financial statements
- the regularity of the expenditure and income.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for NHS Forth Valley are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest budgeted projection.	£6.261 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£3.131 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.063 million

16. We review and report on other information published with the financial statements including the performance report, corporate governance report and the remuneration and staff report. Any issue identified will be reported to the Audit Committee.

Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited NHS Forth Valley's financial statements with complete working papers package	1 May 2017
Latest date for final clearance meeting with Director of Finance	30 May 2017
Agreement of audited unsigned financial statements	2 June 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	2 June 2017
Independent auditor's report signed	9 June 2017

Integrated Joint Boards

18. The 2016/17 financial year will be the first year NHS Forth Valley will be required to consolidate the financial results of the Clackmannanshire & Stirling Integrated Joint Board (IJB); and the Falkirk IJB in its annual accounts. As of 31 October 2016, the Board is committed to £121.061 million and £138.260 million of each of the respective IJB budgets for 2016/17. The budgets for each of these Health and Social Care Partnership's budget will be directed by the respective

IJBs. As noted in Exhibit 1, there is a risk of error in processing the required consolidation accounting entries, a risk of late submission of the IJB financial results, and a risk that overspends by the IJBs could impact the Board's ability to break even. The Director of Finance should ensure that a management review is planned and that a timetable is in place to oversee this consolidation process.

19. We will plan our work to ensure that the IJB results have been consolidated appropriately.

Internal audit

20. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

Adequacy of Internal Audit

21. Our external audit colleagues working on NHS Fife have concluded their review of internal audit function provided by FTF. This included a review of the range and quality of work carried out by internal audit including reporting arrangements. Overall, they concluded that FTF generally complies with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. We have relied on this work for our own purposes.

22. Periodic monitoring reports are presented by the Regional Audit Manager to the audit committee. We noted that these do not advise them of overall progress to date; and whether FTF expect to complete all of their planned audit work in time to inform the annual assurance statement (or whether any planned audit work may need to be carried forward if applicable). This information will be included from January 2017.

Areas of reliance

23. Based on discussion with internal audit and a review of their audit plan for 2016/17, we plan to take cognisance of aspects of internal audit's review of the health board's financial process compliance within a range of systems. We will also review internal audit's arrangements for supporting the annual governance statement reported in the annual accounts.

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

- Health and social care integration
- Organisational performance management
- Property management strategy
- Review of savings programme

25. Additionally, as in previous years, we will meet with internal audit on a regular basis throughout the year to discuss emerging audit issues and share information.

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



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 the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

Financial management

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:

- the arrangements in place to ensure systems of internal control are operating effectively
- whether NHS Forth Valley can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements 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 Forth Valley 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.
- Follow up recommendations contained in Audit Scotland 2010 report on "Role of Boards".

Value for money

30. Value for money refers to using resources effectively and continually improving services.

31. The Board assesses the service it provides using a series of scorecards and reports designed to measure performance in fulfilling its Local Delivery Plan (LDP) and Annual Plan; and against local Key Performance Indicators.

32. The board faces challenges in meeting these targets, particularly in the following areas:

- the achievement of waiting time targets
- spending on non core staff costs
- sickness absence rates

33. We will review, conclude and report on whether:

- NHS Forth Valley can provide evidence that it is demonstrating value for money in the use of its resources.
- The board can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- The board can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Strategic plan for the five year appointment

34. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work. Future year value for money work is dependant on annual performance audits carried out centrally by Audit Scotland and the extent to which these are covered/followed up locally and will be subject to annual review.

Exhibit 6
Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning	Financial planning	Financial Planning
Financial management	Financial governance	Resource Management	
Governance and transparency	Role of Boards follow up		
Value for money			NHS Workforce costs Self directed support

Dimension	2016/17	2017/18	2018/19 to 2020/21
			Children and adolescent mental health

Independence and objectivity

35. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

36. The engagement lead for NHS Forth Valley is Dave McConnell, Assistant 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 Forth Valley.

Quality control

37. 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.

38. 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 issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

39. 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 Forth Valley

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