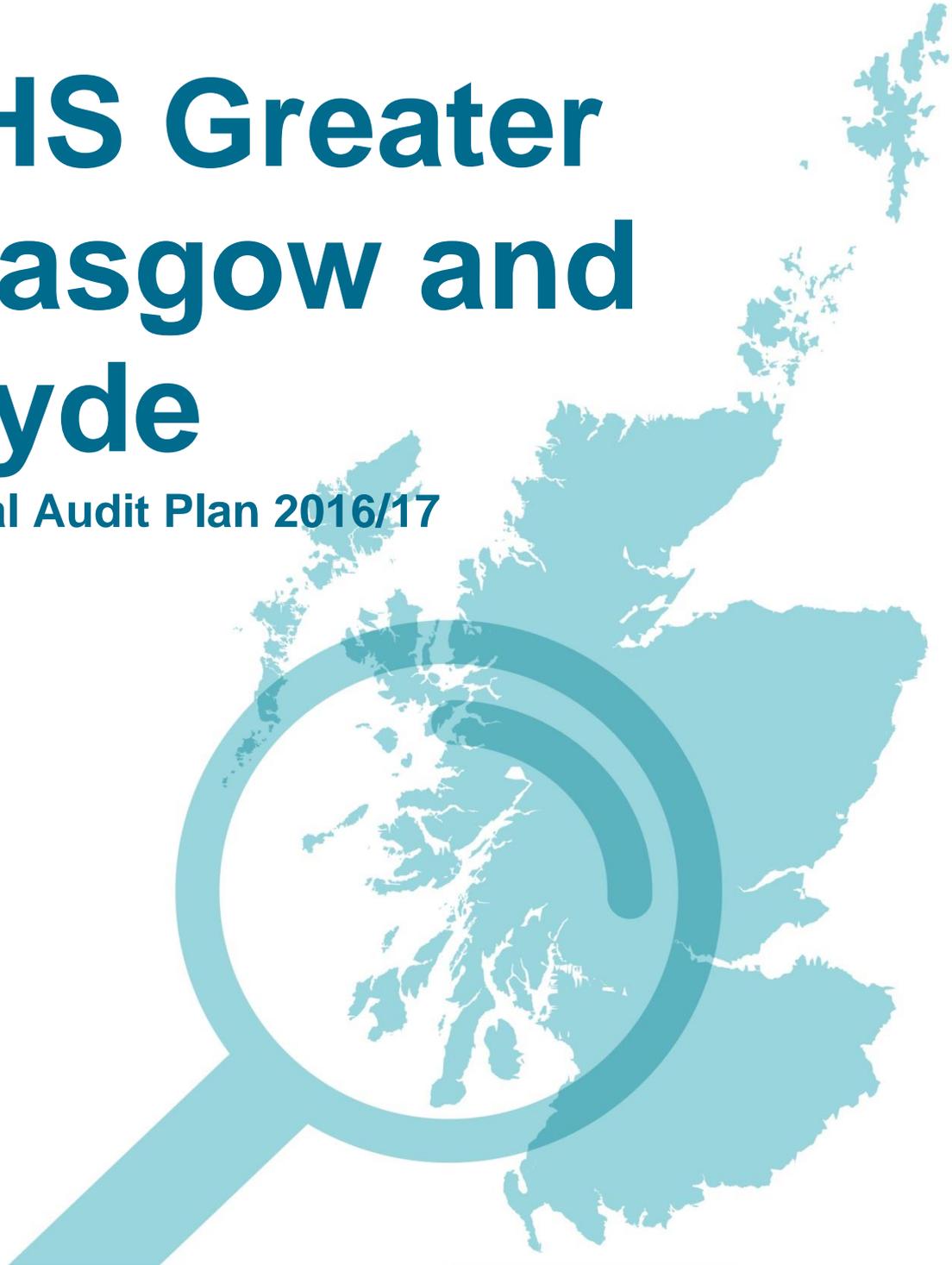


# NHS Greater Glasgow and Clyde

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for NHS Greater Glasgow and Clyde  
February 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 Greater Glasgow and Clyde (NHSGGC). 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
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</p>
<p><b>2 Risk of fraud over income/expenditure</b></p> <p>NHS Greater Glasgow and Clyde 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>NHS GGC has robust systems in place to prevent and detect fraud.</p>	<p>Analytical procedures on income/expenditure streams.</p> <p>Detailed testing of revenue/ expenditure transactions focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Obtain assurances from the</p>

Audit Risk	Management assurance	Planned audit work
<p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. NHS Greater Glasgow and Clyde incurs significant expenditure on a range of activities which will require audit coverage.</p>		<p>NHS Scotland Counter Fraud Service.</p>
<p><b>3 Estimation and judgements</b></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>	<p>Any judgement in the measurement and valuation of the material account areas of non current assets and provisions are based on documented reasoning.</p> <p>This will be presented as part of the audit.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Review of information provided by the Central Legal Office.</p> <p>Focused substantive testing of provisions.</p>
<p><b>4 Non Current Assets</b></p> <p>During the course of the 2015/16 audit a number of issues were raised in both the 'Accounting for Property, Plant and Equipment' report and the Annual Audit Report. Issues raised included:</p> <ul style="list-style-type: none"> <li>• The valuation of assets held for sale and compliance with IFRS 13 and the Capital Accounting Manual.</li> <li>• Fixed asset register not always updated to contain information held on other systems.</li> <li>• Lapses in the documentation, authorisation and communication processes for the disposal of assets.</li> </ul>	<p>These issues were discussed and have been taken on board by the finance team for action.</p>	<p>Follow up work on the Accounting for Property Plant and Equipment report.</p> <p>Substantive testing of a sample of assets held for sale to confirm compliance with IFRS 13 and the Capital Accounting Manual regarding valuations.</p> <p>Review valuation programme.</p> <p>Substantive testing on non current assets, including transfers, disposals and asset lives.</p>
<p><b>5 Consolidation of IJB Accounts</b></p> <p>In 2016/17, the Board's six Integrated Joint Boards are operational and the health board's accounts and annual report will need to include the relevant financial and governance disclosures for the IJB's.</p> <p>In the prior year the arrangements to receive the IJB accounts and related working papers were not fully effective. The Board need to agree a timetable and approach to obtaining the IJB figures for consolidation and assurances required for the group governance disclosures.</p>	<p>The February 2017 ACEG meeting discussed this issue. The IJB's are planning to use a consistent template for the 2016/17 accounts.</p> <p>The IJB CFOs are aware of the timescales for draft accounts and have provided an undertaking to deliver.</p>	<p>We shall have early discussion with officers regarding the timetable and delivery process.</p> <p>We shall seek assurances from the appointed external auditor at each IJB and liaise as appropriate.</p> <p>Assurance obtained by Board's Director of Finance for the group governance disclosure.</p> <p>Specific group account testing will assess the consolidation transactions.</p>

Audit Risk	Management assurance	Planned audit work
<p>There is a risk that draft accounts may be late, incorrectly stated or not appropriately disclosed.</p>		
<p><b>6 Accruals</b></p> <p>In previous years there has been challenges obtaining adequate evidence to support year end accruals.</p> <p>A material financial misstatement may occur if accruals are raised inappropriately.</p> <p>There is increased risk of understatement of accruals in 2016/17 due to the projected year end position.</p>	<p>It has been acknowledged that there was an improvement in the quality of supporting documentation at the 2015/16 final accounts process.</p> <p>The team will strive to continue that improvement into 2016/17.</p>	<p>We shall have early discussion with officers in relation to the substance of transactions.</p> <p>Substantively test a sample of accruals at the year end.</p> <p>Sample post year end payments of goods and services.</p> <p>Analytical review.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>7 Financial Balance/ Savings Targets</b></p> <p>NHS Greater Glasgow and Clyde approved its 2016/17 Financial Plan in June 2016. The plan identified recurring in-year savings of £69 million to break even and current forecasts are for savings of £50-55m to be achieved.</p> <p>There is a risk that the savings to address the budget gap may not be realised.</p>	<p>As at February 2017, it is anticipated that between £15-£20m of savings made in 2016/17 will be non-recurring. These will require to be carried forward into 2017/18 and achieved recurrently.</p> <p>This is included within the current Financial Plan and has been reported to the Board, the F&amp;P Committee and the Scottish Government.</p>	<p>Monitor updates to the Financial Plan and the ongoing financial position.</p> <p>Review financial monitoring reports to the board and Acute Services Committee.</p> <p>Review monthly financial returns to SGHSCD.</p> <p>Follow up on 'Review of Agency Staff, Bank Staff and Sickness Absence' report 2015/16.</p> <p>Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p><b>8 Chief Executive Position</b></p> <p>The Board's Chief executive is leaving the organisation in March 2017 and there may be a substantial gap between the existing CE leaving and the new CE taking up post. There is a risk that there will be no permanent Accountable Officer in post during the important year-end period and the finalisation of the statutory accounts.</p>	<p>A second round of interviews were held last Monday (20th February). An appointment is imminent, and the successful candidate is expected to take up post on the 1st April 2017.</p>	<p>Monitor the Board's arrangements to ensure that appropriate cover is put in place during any emerging transitional period.</p>

## 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](http://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 officers to confirm factual accuracy.
- 5.** We will provide an independent auditor's report to NHS Greater Glasgow and Clyde, 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 Greater Glasgow and Clyde is required to submit its audited financial statements by 30 June to meet the consolidation timetable.

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## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Interim Management Report	30 April 2017	6 June 2017
Annual Audit Report including ISA 260 requirements	30 June 2017	20 June 2017
Signed Independent Auditor's Report	30 June 2017	

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## Audit fee

- 7.** The agreed audit fee for the 2016/17 audit of NHS Greater Glasgow and Clyde is £411,590. In determining the audit fee we have taken account of the risk exposure of NHS Greater Glasgow and Clyde, 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 8 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde 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.

**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 the audited bodies and their 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 Greater Glasgow and Clyde are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - 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 figures for 2016/17.	£31.141 million
<b>Performance materiality</b> - 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.	£15.570 million
<b>Reporting threshold</b> - 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 and has been capped at £100k.	£0.1 million

16. We review and report on other information published with the financial statements including the performance report, remuneration report and annual governance 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 financial statements with complete working papers package	8 May 2017
Latest date for final clearance meeting with the Director of Finance	13 June 2017
Agreement of audited unsigned financial statements	15 June 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	16 June 2017 (tbc)
Independent auditor's report signed	28 June 2017

#### Internal audit

18. 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 PricewaterhouseCoopers.

### **Adequacy of Internal Audit**

**19.** As part of our planning work we conducted a review on the adequacy of internal audit's work. Our findings from this assessment allowed us to confirm that the Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We carried out a detailed review of the work undertaken by internal audit on the areas we plan to place reliance on in January 2017.

### **Areas of reliance**

**20.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Accounts payable
- General ledger
- Payroll

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

- Clinical Governance
- Financial Efficiency Savings
- Waiting Times Targets / Treatment Time Guarantee (TTG)
- Risk Management
- Queen Elizabeth University Hospital - post transfer review
- Health and Social Care Integration - financial reporting and controls
- IT - Data Security and Management

### **Audit dimensions**

**22.** 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

**23.** 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

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

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

#### Governance and transparency

**25.** 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 Greater Glasgow and Clyde 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.

**26.** In 2016/17 Audit Scotland will conduct a follow up of the national report on the Role of Boards which was published in September 2010. We will contribute to the intelligence by conducting a review of local arrangements at the Board.

**Value for money**

**27.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

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

**Strategic Plan for the five year appointment**

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

**Exhibit 6**  
Strategic plan

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

**Independence and objectivity**

**29.** 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.

**30.** The engagement lead for NHS Greater Glasgow and Clyde is David McConnell, Assistant Director. Auditing and ethical standards require the appointed auditor, David McConnell, 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 Greater Glasgow and Clyde.

## Quality control

**31.** 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.

**32.** 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.

**33.** 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 Greater Glasgow and Clyde

## Annual Audit Plan 2016/17

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