



**Scott-Moncrieff**  
business advisers and accountants

# Lothian Health Board

External Audit Plan  
2016/17

February 2017

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# Introduction

# Introduction

## Overview

1. This document summarises the work plan for our 2016/17 external audit of Lothian Health Board (“the Board”).
2. The core elements of our work include:
  - an audit of the Board’s 2016/17 financial statements, including a review of the governance statement;
  - an interim audit, taking account of the work of internal audit, of accounting systems, and corporate governance;
  - a review of the Board’s arrangements as part of the National Fraud Initiative data-matching exercise;
  - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland, for example, providing feedback on the local impact of national performance audits.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General for Scotland is responsible for securing the audit of the Scottish Government and most public bodies, including NHS bodies in Scotland.
4. Audit Scotland is an independent statutory body that provides the Auditor General for Scotland with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.

5. The Auditor General has appointed Scott-Moncrieff as external auditor of the Board for the five year period 2016/17 to 2020/21. This document summarises:
  - the responsibilities of Scott-Moncrieff as external auditors;
  - our outline audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs, timetable and fee; and
  - background to Scott-Moncrieff and the audit team.

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. This plan will be published on Audit Scotland’s website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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# Responsibilities of Scott-Moncrieff

# Responsibilities of Scott-Moncrieff

## Code of Audit Practice

- 9. A new Code of Audit Practice (the Code) was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.
- 10. The Code outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

## Auditor responsibilities

- 11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
- 12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

**Exhibit 1: Audit dimensions of wider scope public audit**

Audit area	Scope
<b>Financial sustainability</b>	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the Board is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.
<b>Financial management</b>	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
<b>Governance and transparency</b>	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
<b>Value for money</b>	Value for money is concerned with using resources effectively and continually improving services.

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# Audit strategy

# Audit strategy

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## Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



14. Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise.

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## Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed that these communications will be through the Audit & Risk Committee.

## Professional standards and guidance

16. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB). In particular, we comply with the APB's *Practice Note 10 on the Audit of Financial Statements of Public Sector Bodies in the United Kingdom (revised)*.

## Partnership working with Audit Scotland

17. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
18. Audit Scotland undertakes national performance audits on issues affecting the Board. We will review the Board's arrangements for taking action on any issues reported in the national performance reports which may have a local impact.

## Internal audit

19. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. To achieve this, we aim to take full cognisance of the work of internal audit wherever possible.

## Other inspection bodies

20. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We plan to take cognisance of NHS service auditor reports as part of our audit of the board.



# Annual accounts

# Annual accounts

21. Health boards' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Board's annual accounts.

## Approach to audit of financial statements

22. Our opinion on the financial statements will be based on:

### Risk-based audit planning

23. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

### An audit of key systems and internal controls

24. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.

25. The systems we review and the nature of the work we perform is based on an initial risk assessment. We examine and test compliance with best practice and the Board's own policies and procedures.

26. Wherever possible we will take cognisance of internal audit's reviews of systems and controls.

27. We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

28. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

29. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the HM Treasury Financial Reporting Manual 2016-17 ('the FReM'), the NHS Scotland Board Accounts Manual ('the Manual') and the Accounts Direction issued by Scottish Ministers.

30. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

31. Our opinion on the truth and fairness of the financial statements and the regularity of transactions will be set out in our independent auditor's report which will be included within the financial statements.

### Materiality

32. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

33. Our initial assessment of materiality for the financial statements is £23million, approximately 1.5% of the Board's RRL. Achieving a breakeven position is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance. We will review our assessment of materiality throughout our audit.

34. We set a performance materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

35. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £230,000; and

- Other misstatements below the percentage threshold that we believe warrant reporting on qualitative grounds.

Area risk assessment	Weighting	Performance materiality
High	40%	£9.2million
Medium	55%	£12.65million
Low	70%	£16.1million

### Key audit risks in the financial statements

36. Auditing standards require that we inform the Audit and Risk Committee of our assessment of the risk of material misstatement in the financial statements. Significant risks are outlined below, with one further significant risk to the wider scope of our audit outlined in section 5 of this report. We will provide an update to the Audit and Risk Committee if our assessment changes significantly during the audit.

#### 1. Health & Social Care Integration and consolidation of IJB Accounts

The integration of health and social care services in the Lothian region came in to effect on 1 April 2015 through the formation of four Health and Social Care Partnerships (East Lothian, Edinburgh, Midlothian and West Lothian). From 1 April 2016, formal responsibility for planning health and social care services for these areas has been delegated to four Integration Joint Boards (IJBs). This represents a fundamental change in the way the “integration functions” are governed across Lothian.

The integration of health and social care services also has a direct impact on the Board’s annual accounts. It is expected that IJBs will be accounted for as joint ventures between the Board and the respective local authority partner. This would have a range of impacts on the board’s financial statements, across the primary statements and notes to the accounts. There would also be notable narrative reporting implications.

IJBs prepare accounts under the Code of practice on local authority accounting in the UK (‘the Code’). The Code requires draft accounts to be prepared by 30 June and IJBs should approve their annual accounts by 30 September. At present, it appears likely that the Board will have to approve accounts consolidating transactions with the IJB before the IJB accounts themselves have been approved. To properly inform NHS Lothian’s accounts approval process it will be imperative that the Board formally agrees income, expenditure and any related balances with the four IJBs in a timely manner.

There is a risk that the Board does not account for transactions and balances with IJBs correctly in the 2016/17 annual accounts.



37. We will review the accounting treatment adopted for the consolidation of IJBs and ensure that the requirements of the FReM and the Manual have been met.

## 2. PFI, NPD and related capital assets

The Board has a range of facilities which are funded through the PPP/PFI mechanism, including The Royal Infirmary of Edinburgh, Midlothian Community Hospital, Ellens Glen and Findlay House. The cumulative estimated base capital value of these agreements is in excess of £200million.

We are aware of ongoing work in relation to one of the PFI agreements (Ferryfield) where the Board is in discussion with the PFI provider as to the way forward with that facility on expiry of the contract term. This facility does not revert to Board ownership on contract expiry, but is a part of the ongoing estates strategy for healthcare provision.

There is a risk that the Board's financial statements do not show the correct PPP/PFI accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for. There are also implications for the financial position and estates strategy on the Board which need to be fully considered.



38. We will review the Board's PPP/PFI accounting and the commitment disclosures against the requirements of the FReM, the Manual and against the supporting contracts. We will also review relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual.
39. We will consider the Ferryfield facility in the context of the estates strategy and consider any financial implications arising.

## 3. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in a way that materially misstates the Board's financial performance.



40. We will evaluate each type of revenue transaction and review the controls in place over revenue accounting. We will consider the Board's key revenue transactions and streams and carry out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied consistently throughout the year.

## 4. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240.



41. In response to this risk we will review the Board's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

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# Wider scope audit

# Wider scope audit

## Introduction

42. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

43. At the outset we will consider the Board’s self-evaluation of arrangements as they relate to these four dimensions. At this early stage of the planning process we have identified one significant risk to the wider scope of our audit in relation to financial sustainability, as outlined below. We will provide an update to the Audit and Risk Committee if our assessment changes significantly during the audit process.

## Financial management

44. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Board responsibilities	Our audit approach
<p>It is the Board’s responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Board is responsible for developing and implementing effective systems of internal control, including financial, operational and compliance controls. These systems should support the achievement of objectives and safeguard and secure value for money from public funds.</p> <p>It is the Board’s responsibility to establish arrangements to prevent and detect fraud and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>	<p>During our 2016/17 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>• Whether the Board has arrangements in place to ensure systems of internal financial control are operating effectively;</li> <li>• Whether the Board can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance;</li> <li>• How the Board has assured itself that its financial capacity and skills are appropriate;</li> <li>• Whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and</li> <li>• The Board’s participation and progress in the National Fraud Initiative.</li> </ul> <p>Our work will include consideration of how risk management has been addressed within the Board. We will also consider the Board’s internal audit arrangements to determine their role in examining the control systems established by management</p>

## Financial sustainability

45. Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.

Board responsibilities	Our audit approach
<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Financial monitoring and reporting arrangements.</li> <li>• Compliance with financial requirements and targets.</li> <li>• The use of balances and reserves.</li> <li>• Plans to deal with uncertainty in the medium and long term.</li> <li>• The impact of planned policies and foreseeable developments.</li> </ul>	<p>During our 2016/17 audit we will consider the Board’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p> <p>It is important that such arrangements are adequate in order to properly control the Board’s operations and use of resources</p>

### Key audit risk

46. In addition to the risks of material misstatement identified in section 4 we also consider there to be a significant audit risk to the wider scope of our audit in relation to financial sustainability.

## 5. Financial sustainability

The financial position of the Board is known to be challenging, with a significant funding squeeze exacerbating a demanding operating environment and outstripping cost increases being faced by NHS Lothian. Although increases are expected in the resources available to the Board over the next three years, the Board is expected to make very substantial recurring efficiency savings each year. There is a risk that delivery of the Board’s efficiency savings plans are at the detriment of services and/or on-going financial health.

 47. During our audit we will consider whether the Board has adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of the Board’s financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

## Governance and transparency

48. 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.

Board responsibilities	Our audit approach
<p>The Board, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Board should involve those charged with governance in monitoring these arrangements.</p> <p>The Board is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will review the effectiveness of the Board's governance framework and the extent to which the Board and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider whether the information provided to the Board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within the Board. We will also consider the Board's internal audit arrangements to determine their role in examining the control systems established by management.</p>

## 6. Health & Social Care Integration

The section above set out the changes to health and social care integration impacting on the NHS in Scotland. In addition to the financial reporting and consolidation challenges discussed previously, such a fundamental change in the way the "integration functions" are governed across Lothian mean success, sustainability and performance are now more than ever intrinsically linked to that of IJB and local authority partners.

There is also a risk that the Board's governance arrangements do not adequately or effectively reflect and/or support the changes to integrated functions following the formal delegation of responsibilities to the IJBs



49. We will consider whether the Board's governance arrangements adequately reflect the changes within integrated functions and whether they are appropriate and effective post-integration.

## Value for money

50. Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Board responsibilities	Our audit approach
<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>	<p>During our 2016/17 audit we will work with the Board to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from the Board that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p>

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# Audit outputs and timetable

# Audit outputs and timetable

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	27 February 2017 Audit & Risk Committee
Interim management report	Report	This report will summarise any significant findings from our interim work on accounting systems and corporate governance.	24 April 2017 Audit & Risk Committee
NFI audit questionnaire	Return	This return to Audit Scotland will reflect NFI activity undertaken by the Board.	By 30 June 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	By 30 June 2017
Annual Report to Board and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work on the use of resources, annual accounts and governance arrangements.	By 30 June 2017

## Audit outputs

51. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet the June 2017 Audit and Risk Committee and certification deadlines.
52. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

53. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts, does not have significant non-standard or complex transactions and contracts, and meets the agreed timetable for audit.
54. The auditor remuneration element of the fee may be varied by up to 10% above the expected level where local issues require additional work to be undertaken. In exceptional circumstances, higher still remuneration can be set with the prior agreement of Audit Scotland.

55. The 2015/16 total audit fee incurred by NHS Lothian was £388,000. For 2016/17 we propose setting the total audit fee at £297,190, reflecting a 23.4% reduction on 2015/16 fees.
56. This proposed 2016/17 audit fee is 7.8% above the default fee level, reflecting the range of significant and complex PFI/PPP contracts within the Board and the detailed scrutiny required to deliver our responsibilities in relation to the very challenging financial position and the implications of health and social care integration.
57. The audit fee will cover:
- the 2016/17 audit work and outputs described in this plan;
  - attendance at all Audit and Risk Committee meetings;
  - access to advice and information on relevant audit issues; and
  - a contribution towards Audit Scotland's costs which cover national performance audit reports, the NHS overview report, best value development, coordination of the NFI and other support costs.

**Composition of the proposed audit fee**

Auditor remuneration – Scott-Moncrieff	£237,050
Pooled costs – Audit Scotland (AS)	£34,660
Performance audit and Best Value - AS	£13,090
Audit support costs - AS	£12,390
<b>Total fee</b>	<b>£297,190</b>

58. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
59. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

**Audit timetable**

60. A summary timetable, including audit outputs, is set out below:



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## Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 19 partners and 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL (0131) 473 3500	25 Bothwell Street Glasgow G2 6NL (0141) 567 4500	10 Ardross Street Inverness IV3 5NS (01463) 701 940

## Extensive public sector audit experience

We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE Colleges. We also provide services to Universities, charities, schools, as well as private and public limited companies.

We have been external auditors within the public sector for at least fifty years, initially in local government. We became involved in NHS audits when Trusts were first established in 1993. Since then, our appointments have covered both external and internal audit with over 20 different NHS bodies.

## Your audit team – key contacts



**Chris Brown**  
**Audit Partner**  
[chris.brown@scott-moncrieff.com](mailto:chris.brown@scott-moncrieff.com)

Chris is the audit partner in charge of our audit of the Board as well as many of our other external and internal audit appointments in the NHS, FE and central government sectors. Chris has 24 years’ experience in NHS auditing. He is a member of the NHS Technical Accounting Group and has experience of Chairing the NHS Corporate Governance and Audit Forum. Chris is always available to provide accounting and other advice to the Board.



**David Eardley CA**  
**Audit Director**  
[david.eardley@scott-moncrieff.com](mailto:david.eardley@scott-moncrieff.com)

David is an experienced NHS external and internal audit director. He joined the firm in August 2006 and has led the management of our more complex and sizeable previous NHS external audit appointments. He is a member of the Annual Accounts NHS Sub-TAG Group and regularly attends TAG. David has 13 years’ experience across the NHS, Local Authority, Central Government and Education sectors.



**Michael Lavender**

**Audit Manager**

[michael.lavender@scott-moncrieff.com](mailto:michael.lavender@scott-moncrieff.com)

Michael joined Scott Moncrieff as a CIPFA Graduate Trainee and qualified in 2011. Michael has been part of the external audit team of our NHS bodies since he started with the firm, working closely with David on the financial statements and governance audit process over this time. He has a wealth of experience managing a portfolio of external audits across the NHS, central government and education sectors.



**Rachael Blenkinsop CPFA**

**Assistant Manager**

[rachael.blenkinsop@scott-moncrieff.com](mailto:rachael.blenkinsop@scott-moncrieff.com)

Rachael has been heavily involved in our NHS external audits since joining the firm in 2011. She has extensive cumulative knowledge and experience of key NHS systems and risks, with strong technical skills from leading a range of on-site audit teams. Rachael has significant NHS and wider public sector experience, drawn from across both external and internal audit.



**James Thomson**

**Senior Consultant, Lean & Business Transformation Services**

[james.thomson@scott-moncrieff.com](mailto:james.thomson@scott-moncrieff.com)

James is involved in our Best Value audits across NHS and Local Authorities and led the national review on Improving Public Sector Efficiency whilst on secondment to Audit Scotland. Prior to joining Scott-Moncrieff, James trained as a Management Accountant with NHS Lothian and then worked at COSLA for over two years at a strategic level.



**Paul Kelly**

**Senior IT Audit Manager**

[paul.kelly@scott-moncrieff.com](mailto:paul.kelly@scott-moncrieff.com)

Paul leads the delivery of computer audit services and has significant experience of delivering a range of services including network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS7799.

## Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of Lothian Health Board (“the Board”) and Scott-Moncrieff.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Board staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board’s responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Board during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

## Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Chris Brown. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet June 2017 ARC reporting deadline.

## Agreement of terms

We shall be grateful if the Board's ARC would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

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