



Scott-Moncrieff
business advisers and accountants

NHS 24

External Audit Plan
2017/18

February 2018

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1

Introduction

Introduction

1. This document summarises the work plan for our 2017/18 external audit of NHS 24.
2. The core elements of our work include:
 - an audit of the 2017/18 financial statements and related matters;
 - an interim audit of accounting systems and the Organisational Improvement Programme;
 - a review of NHS 24's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money; and
 - any other work requested by Audit Scotland.

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 any control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including NHS bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General 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 NHS 24 for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; 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 NHS 24 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 NHS 24 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. Any comments you may have on the quality of our work and this report can be reported to the team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.
8. While this plan is addressed to the Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Responsibilities of the auditor and NHS 24

Responsibilities of the auditor and NHS 24

Code of Audit Practice

9. The Code of Audit Practice (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.

management from its responsibility to address the issues raised and to maintain an adequate system of control.

Our responsibilities

10. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 12). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability

11. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve

Wider scope audit work

12. 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.
13. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
14. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
15. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the full wider scope is not appropriate for NHS 24 and we will restrict our work accordingly.

NHS 24 responsibilities

16. NHS 24 has 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. NHS 24's responsibilities are summarised in Exhibit 2.

Exhibit 1: Audit dimensions of wider scope public audit

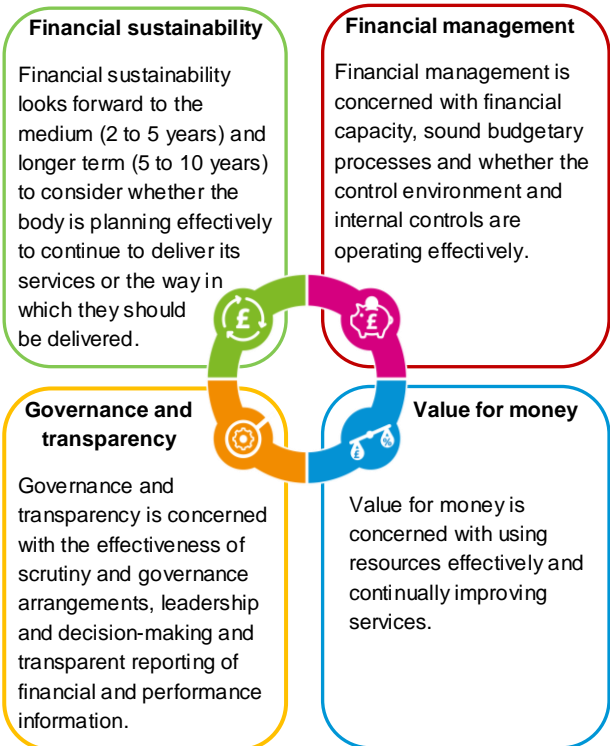


Exhibit 2 – NHS 24’s responsibilities

Area	NHS 24’s responsibilities
<p>Financial statements: NHS 24 must prepare an annual report and accounts containing financial statements and other related reports.</p>	<p>NHS 24 has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support the financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.
<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the entity is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>NHS 24 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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is NHS 24’s responsibility to ensure that its financial affairs are conducted in a proper manner. NHS 24 is responsible for communicating relevant information to users about the entity and its financial performance.</p> <p>NHS 24 is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is NHS 24’s responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>

Exhibit 2 – NHS 24’s responsibilities

Area	NHS 24’s responsibilities
<p>Governance and transparency: 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.</p>	<p>NHS 24 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.</p> <p>NHS 24 is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<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>

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Audit strategy

Audit strategy

Risk-based audit approach

17. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to NHS 24. This

ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



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

Communications with those charged with governance

19. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with NHS 24 that these communications will be through the Audit & Risk Committee (ARC).

Professional standards and guidance

20. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

21. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

22. 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 arising 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.

23. Audit Scotland undertakes national performance audits on issues affecting the NHS. We will review NHS 24's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which NHS 24 uses the national performance reports as a means to help improve performance at the local level.

24. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal audit

25. We are committed to avoiding duplication of audit effort and ensuring an efficient use of NHS 24's total audit resource. NHS 24's internal audit function is provided by PwC. We

will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to NHS 24 is used efficiently and effectively.

Shared systems and functions

26. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. NHS 24 use NHS National Services Scotland for ledger and payroll services. NHS 24 also uses the National Single Instance (NSI) e-financials service (financial ledger services hosted by NHS Ayrshire and Arran). The appointed auditors to these organisations will share with us their findings on work carried out on those systems.

Other inspection bodies

27. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Through enquiry of management as part of our initial planning discussions, we have currently not identified any other inspection work planned for 2017/18 which is directly relevant to our work, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2017/18 and update our plans as necessary.



Annual accounts

Annual accounts

Introduction

28. Audited bodies' 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 NHS 24's annual accounts.

Approach to audit of annual accounts

29. Our opinion on the annual accounts will be based on:

Risk-based audit planning

30. We focus our work on the areas of highest risk in all aspects of our work, including our audit of the annual accounts. 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 annual accounts will be based.

An audit of key systems and internal controls

31. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

32. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and NHS 24's own policies and procedures.

33. Wherever possible we will look to integrate internal audit's reviews of systems and controls with our own work. We will update the risk assessment following our review of the adequacy of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

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

35. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the NHS Scotland Board Accounts Manual and the Accounts Direction issued by Scottish Ministers.

36. 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

37. Our opinion on the true and fair view of the annual accounts and the regularity of transactions will be set out in our independent auditor's report which will be included within the annual accounts.

38. We are also give an opinion on the auditable part of the remuneration report, annual governance statement and whether the management commentary is consistent with the disclosures in the annual accounts.

Materiality

39. Materiality is an expression of the relative significance of a matter in the context of the annual accounts 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.

40. Our initial assessment of materiality for the annual accounts is £1.3 million, being 1.8% of NHS 24's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for NHS 24 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.

41. We set a performance (testing) 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.

Area risk assessment	Weighting	Performance materiality
High	45%	£0.585 million
Medium	55%	£0.715 million
Low	70%	£0.910 million

42. 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 2% of the overall materiality figure (i.e. over £26,000); and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

43. Auditing standards require that we inform the ARC of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the ARC if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. 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 NHS 24 could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position.



44. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. We will however continue to review this position throughout the audit.

2. Risk of fraud in the recognition of expenditure

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.



45. In response to this risk we will evaluate the significant expenditure streams at NHS 24 (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider NHS 24's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

3. 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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



46. In response to this risk we will review NHS 24'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

47. The Code frames a significant part of our work as wider scope responsibilities. Wider scope is considered in our annual planning and reporting in terms of four audit dimensions:

- financial sustainability
- financial management
- governance and transparency; and
- value for money.

48. We are committed to using the wider dimensions to target and provide assurance on key aspects of NHS 24's approach throughout our period of appointment. During 2016-17, we drew on NHS 24's self-assessment against the four dimensions and conducted a targeted review of financial sustainability and management arrangements. The results of this work were reported in our Annual Report on the audit. In 2017-18, as we outline below, we

intend to place additional focus on the value for money dimension.

Financial sustainability

49. Financial sustainability looks forward to the medium and longer term to consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability; and
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

50. We also consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit.

51. We have identified one significant risk in relation to financial sustainability:

1. Brokerage and financial sustainability

The Board achieved financial balance in 2016-17 and was able to increase the planned brokerage repayment. At 31 March 2017, the brokerage balance to be repaid to the Scottish Government totalled £19.606 million.

In the 2017-18 Local Delivery Plan there are projected costs of £5.7 million attributable to double running costs of the new technology platform. NHS 24 have incorporated this into the LDP but plan to achieve financial balance while making a brokerage payment of £0.474 million in 2017-18, rising to £6.377million in 2018-19. Under the plan, in 2017-18 NHS 24 will be required to deliver efficiency savings of £2.390million in order to breakeven. There is a risk that not all planned budget savings will be delivered recurrently.



In response to this risk we will monitor NHS 24's updates to the Financial Plan and the ongoing financial position. We will also review financial monitoring reports to the board and Finance and Performance Committee to gain assurance on the identification and achievement of savings, and any impact on the quality and performance of the service. We will draw conclusions on this work and risks for future years within our annual report.

Financial Management

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

53. During our 2017/18 audit we will review, conclude and report on the following:

- Whether NHS 24 has arrangements in place to ensure systems of internal control are operating effectively;
- the effectiveness of the budgetary control system in communicating accurate and timely performance;

- How NHS 24 has assured itself that its financial capacity and skills are appropriate;
- Whether NHS 24 has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- NHS 24's participation and progress in the National Fraud Initiative.

Governance and transparency

54. 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.
55. During 2016-17 we noted the strengthened governance arrangements in place to provide additional support and assurance to the Board during the implementation of the Organisational Improvement Programme. We highlighted the need for NHS 24 to consider whether governance structures remain fit for purpose as the organisation develops NHS 24 Strategy and the Strategic Delivery Programme Business Case.
56. During our 2017-18 audit we will therefore review and conclude on the progress that NHS 24 has made with partners to develop more formal collaboration with the other National Boards, the creation of the National Board Delivery Plan, and the impact for NHS 24's governance arrangements.

Value for money

57. Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered. Accountable officers also have a specific responsibility to ensure that arrangements have been made to secure best value.
58. NHS 24 was asked to develop a proposed suite of fit-for-purpose performance framework and associated targets and outcomes that are aligned to the aims and outcomes in the 5 year strategy as part of the Annual Review 2016. In October 2017, a paper was presented to the Board that set out proposed key performance indicators that would form the basis of NHS 24 formal reporting to Scottish Government. Further work is required to cover the full extent

of NHS 24 performance management and reporting and work will continue throughout 2017-18 to complete a full performance framework.

59. We also note that in February 2017, NHS 24 approved a Clinical Governance and Quality Improvement Strategy 2017-19. The Strategy identifies key priorities for the 2 years, including the development of a quality improvement framework and communication plan, and the creation of a quality improvement function within NHS 24.
60. During 2017-18, we will draw on guidance from Audit Scotland to review and conclude on whether outcomes are improving, performance risks are managed and there is sufficient focus on improvement.

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Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	December 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.	June 2018
Annual Report to the 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.	June 2018

Audit outputs

61. 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 (ARC) and certification deadlines.
62. 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

63. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has well-functioning controls, an effective internal audit service, and an average risk profile. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied

above the expected fee level to reflect the circumstances and local risks within the body.

64. For 2016/17 the expected fee for NHS 24 is £41,620. We propose setting the fee above this level at £45,780; to take cognisance of the audit work we will carry out on the priorities and risks facing NHS 24 which are identified in this plan.
65. The total proposed fee for NHS 24 for 2017/18 is as follows:

	2017/18
Auditor remuneration	£45,780
Pooled costs	£6,010
Performance audit and Best Value	-
Audit support costs	£2,510
Total expected fee	£54,300

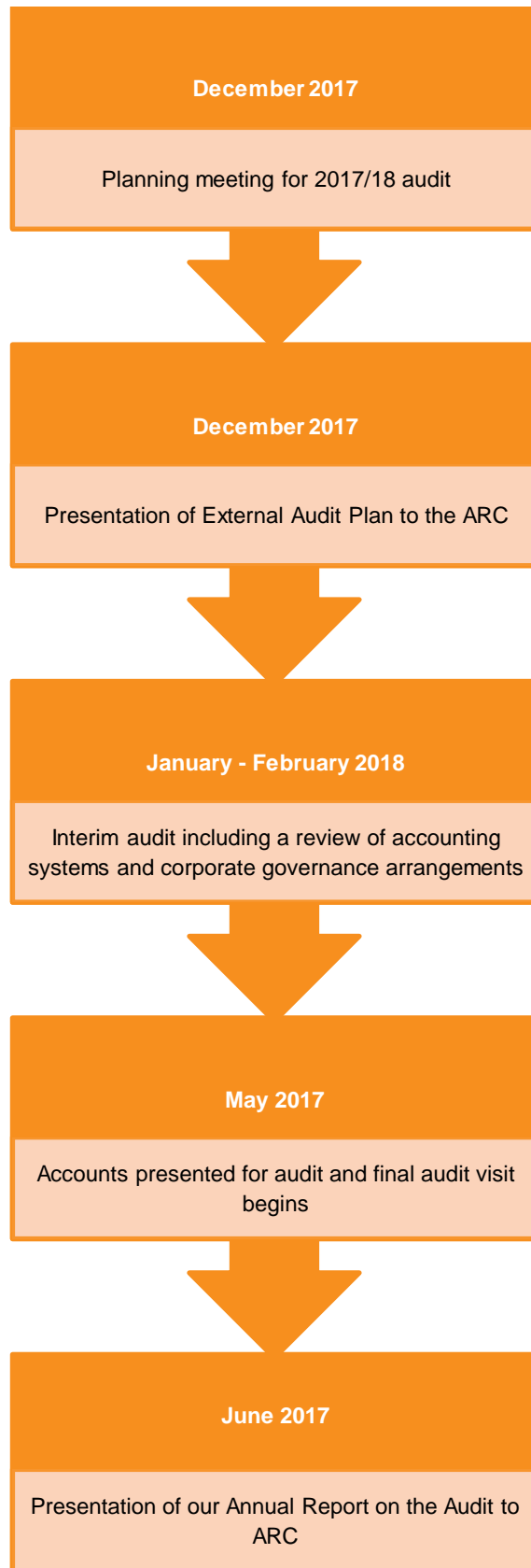
66. The audit fee covers:
- the 2017/18 audit work and outputs described in this plan;

- attendance at all ARC 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.

67. We take account of the risk exposure of NHS 24 and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. We have agreed that draft accounts will be provided w/c 1 May 2017, during the course of our onsite work. 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

68. The dates for our interim and final audits have been discussed with the Deputy Director of Finance. 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 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

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 charities, schools, as well as private and public limited companies.

We have been external auditors within the public sector for at least fifty years. We provide a

Your core audit team



Nick Bennett
Audit Partner
nick.bennett@scott-moncrieff.com

Nick has been the Audit Partner on NHS 24 audit for the last five years. Nick has over 20 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards.

Nick's experience and expertise is acknowledged by both clients and by other professionals right across the public sector.

Nick will be your appointed Engagement Lead.



Claire Gardiner
Audit Manager
claire.gardiner@scott-moncrieff.com

Claire has over 12 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including pension funds, local authorities, health bodies and central government bodies. Claire will manage the onsite team and work alongside Karen and Nick to deliver the audit engagement.



Rachel Wynne
Audit Senior
rachel.wynne@scott-moncrieff.com

Rachel has 4 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies, local authorities, health bodies and further education bodies. Rachel will be responsible for the delivery of onsite work.



Campbell McLundie
Consultant
campbell.mclundie@scott-moncrieff.com

Campbell is a consultancy expert, providing a range of IT audit, assurance and project management services. Campbell has over 30 years' experience of working with public, private and not for profit clients in ensuring that business technology delivers strategic benefits and is managed efficiently and effectively.

Your core audit team



Grace Scanlin
Senior Manager

grace.scanlin@scott-moncrieff.com

Grace has over 15 years experience of public sector audit and has worked across the local government, health and central government sectors in both internal and external audit. Grace also worked within Audit Scotland's performance audit team and lead on national studies covering key sector issues. Grace will lead the wider scope audit strategy and provide support to the on site team.

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 FRC Ethical Standard – Integrity, Objectivity and Independence. 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 NHS 24, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

With regard to our appointment for a second term, we can confirm that we comply with FRC Ethical Standard section 3 – Long association with engagements and with entities relevant to engagements which states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Therefore, the new appointment for a second five year term does not contradict the requirement of the FRC. This is in line with guidance from Audit Scotland which states that there is no expectation for the rotation of audit partners for special health board audits.

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 NHS 24 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 NHS 24 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 NHS 24'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 NHS 24 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 NHS 24 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 Nick Bennett. 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 NHS 24'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