



# NHS Education for Scotland

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## External Audit Plan for the financial year ending 31 March 2018

Audit Committee 11 January 2018 and finalised February 2018

**Joanne Brown**  
Engagement Leader

**John Boyd**  
Senior Audit Manager



# Our audit at a glance



We fulfil our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Materiality is set at 2% of gross expenditure based on 2016/17 audited information (£8.8 million). Previous year it was 1% of gross expenditure reflecting the first year of our audit appointment.



We have identified significant risks of management override of controls and expenditure recognition as set out in International Auditing Standards (ISAs UK) and the FRC's Practice Note 10.

An audit underpinned by quality and adding value to you



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of NES in year 2 of our audit cycle.



At the planning stage we have not identified other areas of inherent audit risks of material misstatement.



Our audit is undertaken in accordance with the Code of Audit Practice. We do not consider a full wider scope audit scope is appropriate to NES. However, we will consider the Board's financial sustainability and governance arrangements as part of our audit.

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# Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights across the sector (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular updates during the year
- clear reporting with focused actions which will support you in improving your controls/operations
- we will liaise effectively with Internal Audit.

## Adding value

Specific areas we will look to add value to NES during 2017/18, identified as part of our planning work and reflection on prior year include:

- We will act on the 'learning the lessons' sessions we held after the first year audit and ensure that there is a smooth handover to the new audit team.
- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will provide a briefing for the Audit Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.
- We will share the Scottish Public Sector Transparency report we produced for Audit Scotland at the end of December 2017, alongside our UK Grant Thornton Transparency Report.



## External Audit deliverables for 2017/18 – Audit Committee

- External Audit Plan (this document)
- Governance and Transparency report and audit quality briefing (Issued to Audit Committee members)
- Annual Report to those Charged with Governance (June 2018)
- Audit opinion (June 2018)
- Management letter of representation (June 2018)
- Submit accounts and electronic version by end of June 2018
- Submission of NHS Minimum data set (2 July 2018)



## 2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of February 2018
- National Fraud Initiative - completed Auditor checklist (February 2018)
- Current Issues returns to Audit Scotland covering matters of ministerial or Auditor General interest and best value elements (January and July 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018



## Planned Audit Scotland publications which may be relevant to NES

- Digital developments and projects – risks and issues
- Changing models of health and social care (Autumn 2018)

# Audit approach and materiality

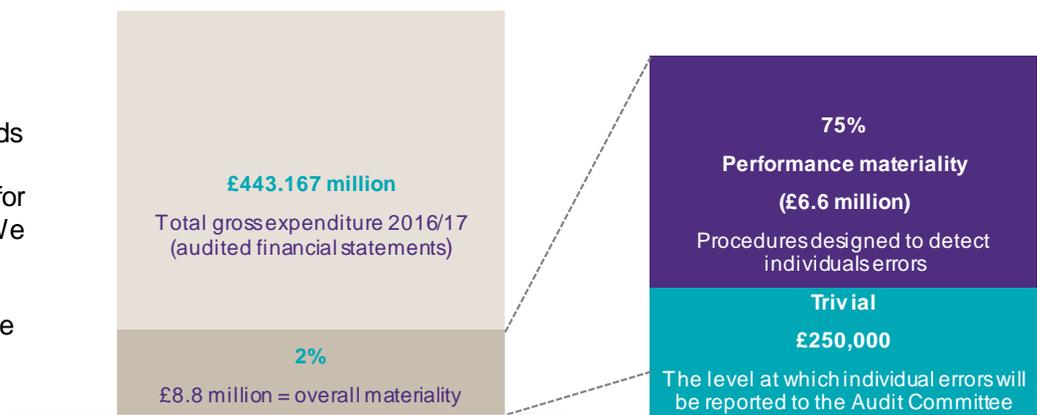


We undertake your audit in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

## Materiality

In performing our audit we apply International Standards on Auditing (UK) 320: *Materiality*. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received.



### Overall materiality

We have calculated overall materiality in line with gross expenditure, as is recognised as a common measure in the public sector. This is in line with prior year. As this is our second year of the audit, and taking into account the level of errors and adjustments in prior year, and the context of your activities we feel it is appropriate to increase our materiality benchmark to 2% (1% in 2016/17). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%.

### Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. The Code of Audit Practice requires auditors to set this at no more than £250,000. We have therefore set our reporting threshold in accordance with the Code.

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit Committee in our Annual Report to those charged with governance.

### Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2016/17 we have increased this for 2017/18 to 75% (65% in prior year). This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

### Going concern considerations

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# A risk based audit methodology

## Our understanding of NES

This is our second year as the external auditors of NES appointed under the Audit Scotland framework. In 2016/17 NES received funding of £438.6 million, consisting of £436.6 million of core funding and £2 million of non-core funding, and delivered a saving of £545,000 against core revenue resource limits. The original 2017/18 budget submitted to Scottish Government Health Directorates was balanced. This included planned measures to meet budget gap of £7.1 million.

As at November 2017, management forecast an underspend of £643,000 against budget. A significant proportion of this related to the unanticipated receipt of carry-forward allocation from the prior year from the Scottish Government of £545,000 as well as the delivery of in year efficiency saving. While NES has a track record of achieving its financial targets, like other organisations across the NHS, management recognise that the organisation will continue to face significant financial challenges over the medium term. The 2017/18 Local Delivery Plan (LDP) outlines how NES will work towards the delivery of the Boards strategic outcomes set within the 2014-19 Strategic framework. The 2017/18 LDP focuses on supporting transformation change across health and social care, with particular focus on the actions set out in the Scottish Government's Health and Social Care delivery Plan.

## Wider Scope – Smaller Body approach

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of NES's operating activity and income and expenditure streams, we feel it is appropriate to treat you as a smaller body under the Code. However, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support the delivery of NES strategic outcomes as part of our audit. We will also consider how the organisation is considering and planning for the potential impact of Brexit on financial and workforce plans.

### Overview of our audit risks identified at planning and our proposed approach

#### Risk of fraud in revenue and expenditure

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2016/17, NES's material revenue streams related to Scottish Government resource funding. Given the nature of this income being well forecast and agreed directly with SGHD we rebut the presumed risk of material misstatement over income. However, as set out in Practice note 10 (revised), for public sector entities there is a presumed risk of misstatement of expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of expenditure.

- Walkthroughs of the controls and procedures around material expenditure streams and validation of key controls where appropriate
- Perform cut off at year end on pre and post year end transactions and recording
- Regularity – Expenditure incurred in accordance with the type/nature of NES as an organisation
- Confirming the completeness and accuracy of balances at the year end

#### Management override of controls

As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.

- A focus on understanding how/where management override of controls may occur
- Review of the controls over journal entries
- Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies
- Reviewing unusual and/or significant transactions

The Risk

Our planned response

## Specific areas of focus

During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements. Examples include the Remuneration and Staff Reports where due to the nature of the amounts reported we will apply a lower level of materiality.

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# Appendices

**Key audit deliverables and our team**

**Independence and fees**

**Fraud arrangements**

**Respective responsibilities**

**Communication of audit matters with those charged with governance**



# Fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	48,270
Pooled Costs	6,970
Contribution to Audit Scotland costs	2,910
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>58,150</b>

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, will be agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and NES activities will not change significantly from planned
- NES will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as valuations of assets are supported by an independent specialist

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

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# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at NES.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for NES this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NES responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with NES to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NES arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	NES Responsibilities
Corporate governance	<ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control</li> <li>Maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
Financial position	<ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
Fraud and error	<ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

## How do we do this in practice



- By reviewing and providing judgements and conclusions on NES arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of NES
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NES accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NES Management and the Audit Committee.

