

# NHS Greater Glasgow and Clyde

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for NHS Greater Glasgow and Clyde  
January 2017

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

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

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end, to confirm expenditure and income have been accounted for in the correct year.</p>
<p><b>2 Risk of fraud over income/ expenditure</b></p> <p>NHS Greater Glasgow and Clyde receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means</p>	<p>NHSGGC has robust systems in place to prevent and detect fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> <p>Obtain assurances from the</p>

Audit Risk	Source of assurance	Planned audit work
<p>that, in accordance with ISA240, there is an inherent risk of fraud.</p>		<p>NHS Scotland Counter Fraud Service.</p> <p>Complete NFI audit questionnaire to assess progress and actions taken by the board to investigate matches.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The assumption on fraud over income is mirrored in terms of aspects of expenditure. NHS Greater Glasgow and Clyde incurs significant expenditure on a range of activities which will require audit coverage.</p>	<p>NHSGGC has robust systems in place to prevent and detect fraud.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Obtain assurances from the NHS Scotland Counter Fraud Service.</p> <p>Complete NFI audit questionnaire to assess progress and actions taken by the board to investigate matches.</p>
<p><b>3 Estimation and Judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Any judgement in the measurement and valuation of the material account areas of non current assets and provisions are based on documented reasoning.</p> <p>This will be presented as part of the audit.</p>	<p>Completion of 'review of the work of an expert for the professional valuer.</p> <p>Review of information provided by the Central Legal Office.</p> <p>Focussed substantive testing on values and balances which are derived by valuation and estimation, including accruals and provisions.</p>
<p><b>4 Financial Capacity</b></p> <p>The health board has experienced staffing changes within the finance function. These changes will affect officers involved in the preparation of the financial statements and the subsequent audit process.</p> <p>The board should ensure that the finance function is appropriately resourced and that effective succession planning arrangements are in place.</p> <p>There is a risk that the finance department is not sufficiently resourced in terms of time, experience and knowledge to support the preparation of the financial statements.</p>	<p>The Finance Function is constantly evolving, including turnover of staff.</p> <p>In year, this turnover has included several key posts within the Department. However, alternative arrangements have been put in place, either temporary or permanent, that have ensured a consistency of service,</p>	<p>We shall have early discussion with officers regarding the annual accounts timetable. Discussions will continue throughout the course of the audit.</p> <p>We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.</p>
<p><b>5 Integration Joint Board's arrangements</b></p>	<p>The IJBs are planning to use a consistent template for the</p>	<p>We shall have early discussion with officers regarding the</p>

Audit Risk	Source of assurance	Planned audit work
<p>The 2016/17 IJB accounts and working papers were not provided within planned timescales at the year end. The Board should agree a timetable and approach to obtaining IJB figures for consolidation and assurances required for the group governance disclosures.</p> <p>There is a risk that the accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.</p>	<p>2017/18 accounts.</p> <p>The IJB CFOs are aware of the timescales for draft accounts and have provided an undertaking to deliver.</p>	<p>timetable and delivery process.</p> <p>We shall seek assurances from the appointed external auditor at each IJB and liaise as appropriate.</p> <p>We will obtain assurance from the Board's Director of Finance for the group governance disclosure.</p> <p>Specific group account testing will assess the appropriateness of consolidation transactions.</p>
<p><b>6 Performance Report</b></p> <p>During the 2016/17 financial statements audit the performance and accountability reports were not provided with the draft financial statements due to the reports not being completed and reviewed within a sufficient timeframe.</p> <p>There is a risk that the financial statements audit cannot be completed within the agreed timeframe if the report is not produced timeously.</p>	<p>The risk of non-completion is minimal.</p> <p>Due to the ever increasing complexity of this part of the Accounts, and the introduction of a new Board Chief Executive, additional time was required to draw all the required elements of information together.</p> <p>A revised timetable will be produced for the 2017/18 Final Accounts.</p>	<p>We will issue a working paper checklist to outline requirements and agree timescales for the receipt of the performance and accountability reports.</p> <p>We shall have early discussion with officers regarding the timetable and delivery process.</p>
<p><b>7 Road Traffic Accident (RTA) Debtor</b></p> <p>During 2016/17 new guidance was issued in relation to how RTA income should be reflected within the financial statements. We identified that the board did not accrue any income or apply a related bad debt provision within the financial statements in relation to the Injury Recovery Scheme as required by the revised guidance. Instead recognition was only at the point of receipt of income.</p> <p>The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme, otherwise there is a risk that income is mis-stated within the financial statements.</p> <p>The board should also ensure that effective arrangements are in place for ensuring that all legislative and regulatory</p>	<p>This is under review and a process will be in place by the 31<sup>st</sup> March 2018.</p>	<p>Early discussions with finance officers in order to determine what processes have been put in place to appropriately record claims pursued on the board's behalf.</p> <p>Review of established processes.</p> <p>Substantive testing of the board's RTA income and debtor figures and associated provisions.</p> <p>Discussion with officers to assess the effectiveness of measures to receive and communicate relevant changes in legislation and regulation.</p>

Audit Risk	Source of assurance	Planned audit work
<p>changes are identified and that relevant services are acting upon the guidance.</p>		
<b>Wider dimension risks</b>		
<p><b>8 Financial position and Financial sustainability</b></p> <p>NHS Greater Glasgow and Clyde's financial plan for 2017/18 identified a savings requirement of £122.4 million. The board were unable to set a balanced budget for the year and the financial plan recognised a funding gap of £18.5 million. The board reported an overspend of £24.4 million to the end of September 2017 and are reporting an expected overspend of £20 million at the year end. This figure may change due to uncertainties relating to winter pressures. The Financial Plan forecasts future savings requirements of £54 million, £56 million and £57 million over the next three years.</p> <p>There is a risk that planned savings are not realised or achieved recurrently resulting in the board's financial position deteriorating.</p>	<p>As at December 2017, it is anticipated that approx £40m of savings will be realised in 2017/18.</p> <p>However, this leaves a financial gap in-year, and a significant underlying recurring financial gap, which has been reported to the F&amp;P Committee, the Board and the Scottish Government.</p> <p>We continue to work extensively to close the in-year financial gap.</p>	<p>Monitor updates to the Financial Plan and the ongoing financial position.</p> <p>Review the monthly financial returns to the SGHSCD.</p> <p>Review the financial monitoring reports to the board, acute services committee and finance and planning committee.</p> <p>Attendance at the Finance and Planning committee.</p> <p>Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p><b>9 Performance targets</b></p> <p>The board continues to face difficulties in achieving all performance targets. There is a risk that, due to financial pressures and competing priorities, performance targets are not met.</p>	<p>The Board continues to strive to achieve all performance targets, and continually improve all aspects of patient care.</p> <p>Similarly to the UK NHS, NHSGGC is struggling to consistently achieve performance targets.</p> <p>However, it remains our primary area of focus, not least through the extensive capacity planning exercise on-going within the Acute Division.</p>	<p>Monitor the regular performance reporting to the Board and its standing committees.</p> <p>Attendance at Acute Services Committee.</p>

## ICT Audit

4. In addition to the audit work outlined above, we intend to perform an ICT health-check as part of the 2017/18 audit. This enables us to review eHealth's control environment, ICT service delivery, business continuity measures and its approach to asset protection and installation management.

## Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to NHS Greater Glasgow and Clyde, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	28 February 2018	12 December 2017
Management Report	30 April 2018	13 March 2018
Annual Audit Report	29 June 2018	19 June 2018
Independent Auditor's Report	29 June 2018	28 June 2018

## Audit fee

9. The proposed audit fee for the 2017/18 audit of NHS Greater Glasgow and Clyde is £391,570 {£411,590 in 2016/17}. In determining the audit fee we have taken account of the risk exposure of NHS Greater Glasgow and Clyde, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 9 May 2018.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit and Risk Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing



effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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

### **Appointed auditor**

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

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

# Audit scope and timing

## Financial statements

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

- understanding the business of NHS Greater Glasgow and Clyde and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Greater Glasgow and Clyde will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

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

## Materiality

**17.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**18.** We calculate materiality at different levels as described below. The calculated materiality values for NHS Greater Glasgow and Clyde are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March based on the month 6 FPR return to Scottish Government.	£32.17 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£16.1 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality, which has been capped at £100 thousand.	£0.1 million

Source:



**19.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration. Any issue identified will be reported to the Audit and Risk Committee.

### Timetable

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	9 May 2018
Latest date for final clearance meeting with Director of Finance	12 June 2018
Issue of letter of representation and proposed independent auditor's report	15 June 2018
Agreement of audited unsigned annual accounts	14 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	15 June 2018
Financial Statements signed by the Board	26 June 2018
Independent auditor's report signed	28 June 2018

## Internal audit

**21.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by PriceWaterhouseCoopers.

### Adequacy of Internal Audit

**22.** As part of our planning work we conducted a review on the adequacy of internal audit's work. Our findings from this assessment allowed us to confirm that Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We have not been able to carry out a detailed review of the work undertaken by internal audit on the areas we plan to place reliance on, however this is planned to be completed in January 2018.

### Areas of Internal Audit reliance

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

- Accounts Payable
- Payroll
- Fixed Assets

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

- Financial Efficiency Savings
- Premium Rate Agency Use
- Gifts and Hospitality Compliance
- Corporate Risk Management Health and Social Care Integration- Managing directions from IJB
- Property Transactions Monitoring
- Waiting Times Management
- Delayed Discharges
- Information Governance- Information Commission Office Action Plan
- Cyber Security Maturity (Phase 2)

### Audit dimensions

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

### Financial management

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

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

### Governance and transparency

**28.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent

reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Greater Glasgow and Clyde can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered as part of the Health and Social Care Partnerships
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance report
- the quality and timeliness of financial and performance reporting.

### Value for money

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

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

### Independence and objectivity

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

**31.** The engagement lead for NHS Greater Glasgow and Clyde is David McConnell, Assistant Director Audit Services. Auditing and ethical standards require the appointed auditor, David McConnell to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Greater Glasgow and Clyde.

### Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

### **Adding Value**

**35.** Through our audit work we aim to add value to NHS Greater Glasgow and Clyde. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the NHS Greater Glasgow and Clyde has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# NHS Greater Glasgow and Clyde

## Annual Audit Plan 2017/18

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