

NHS National Services Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland

January 2018

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 National Services Scotland (NHS NSS). We have categorised these risks into financial statement 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
Financial statement issues and risks		
<p>1 Risk of management override of controls</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>2 Risk of fraud over income</p> <p>ISA 240 requires the auditor to presume that there are risks of fraud in revenue recognition. NHS National Services Scotland receives a significant amount of income in addition to Scottish Government funding. The Board's share of non SG sources of income continues to increase. The extent and</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit and service audit coverage of internal controls.</p> <p>Regular monitoring of National Fraud Initiative and NHS NSS fraud monitoring reports.</p>	<p>Analytical procedures on income streams.</p> <p>Review of contracts and agreement to actual spend.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>complexity of income means that, in accordance with ISA240, we have planned audit procedures in response to the assessed risk.</p>		
<p>3 Estimation and judgements</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>Effective budget monitoring by management.</p>	<p>Completion of 'review of the work of an expert' for the relevant professional valuer.</p> <p>Focused substantive testing of key areas to valuation certificates/ provision assumptions.</p> <p>Review of accounting policies to ensure they are reasonable and appropriately applied.</p>
<p>4 Electronic Employee Support System (eESS) interface</p> <p>The eESS interface between the HR and Payroll systems is now live. As this is a new feature of the systems which produce the staff costs in the financial statements, we will test the operation of the interface and internal controls over the completeness and accuracy of information held on the HR and Payroll systems.</p>	<p>Internal and Service audit review of Payroll.</p>	<p>Initial system review of the HR system including walkthrough of the system.</p> <p>Focused testing of leavers, starters and changes to staff data across both systems.</p> <p>We plan to place some reliance on Internal audit's 2015/16 work on the Payroll system.</p>
<p>5 Jack Copland Centre</p> <p>Construction of the Jack Copland Centre (JCC) is now complete and the centre is expected to be operational by the end of the 2017/18 financial year. We will review the accounting treatment for bringing this asset into the asset register in its first year of operation.</p>	<p>Valuations of non current assets provided by qualified valuer.</p>	<p>Completion of the 'review of the work of an expert' for the professional valuer.</p> <p>Review of the accounting treatment of the asset at the year end.</p>
<p>Wider dimension risks</p>		
<p>6 Financial sustainability</p> <p>NHS National Services Scotland reported in 2016/17 about funding pressures on the range of services that it provides due to relatively modest increases in funding combined with a high requirement for Cash Releasing Efficiency Savings (CRES). This represents an increasing challenge over the lifetime of the Local Delivery Plan.</p>		<p>Review of medium to long term financial planning in support of Local Delivery Plan.</p>

Audit Risk	Source of assurance	Planned audit work
<p>7 New public health body</p> <p>The Scottish Government's December 2016 "Health and Social Care Delivery Plan" announced the creation, by 2019, of a new national public health body. The Scottish Government has confirmed that people and services from NHS National Services Scotland will transfer to the new body. NHS NSS will need to manage this transition in the period to April 2019, when the new body will be operational.</p>		<p>Review of the Board's preparations for the transfer of services and people to the new body.</p>
<p>8 Financial management</p> <p>The most recent finance monitoring report forecasts that savings targets will be met by the 2017/18 financial year end; however, until the year end it is not possible to conclude that NHS NSS's financial targets will be met.</p>	<p>Effective budgetary control by management.</p>	<p>Review of finance reports to the Performance and Finance Committee.</p> <p>Monitor updates to financial plans.</p> <p>Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p>9 Cyber security</p> <p>The Scottish Government has drafted new guidance on cyber security for public sector bodies. We will review NHS NSS's arrangements for cyber security, including its response to the Scottish Government.</p>		<p>Review of cyber security arrangements including how NHS NSS has responded to the Scottish Government's draft best practice guidelines on cyber resilience.</p>
<p>10 Contract management regime</p> <p>NHS National Services procures and manages national IT contracts on behalf of NHS Scotland. There is a range of models in use for these contracts, including complex, multi-supplier contracts. It is important that NHS NSS uses IT procurement to drive business change and ensure that IT procurement is fit for future services.</p>		<p>Review of contract management regime within NHS NSS.</p> <p>Progress update meetings with Contract, Vendor and Service Management team.</p>

Reporting arrangements

4. 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.

5. 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.

6. We will provide an independent auditor's report to NHS National Services Scotland, 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.

7. 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.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
National Fraud Initiative (NFI) questionnaire	28 February 2018	N/A
Interim report	15 March 2018	28 March 2018
Service audit assurance letter	31 May 2018	21 June 2018
Annual Audit Report including ISA260 requirements	30 June 2018	21 June 2018
Signed Independent Auditor's Report	30 June 2018	N/A

Audit fee

8. The proposed audit fee for the 2017/18 audit of NHS National Services Scotland is £181,530 (2016/17 £189,370). In determining the audit fee we have taken account of the risk exposure of NHS National Services Scotland, 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 1 May 2018.

9. 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

10. 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.

11. 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

12. 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.

13. 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

14. 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 National Services Scotland 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 National Services Scotland 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.

15. 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 National Services Scotland and its net operating cost as at 31 March 2018 in accordance with the National Health Service (Scotland) Act 1978;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM; and
- Whether they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Materiality

16. 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.

17. We calculate materiality at different levels as described below. The calculated materiality values for NHS National Services Scotland are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – 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 2018 based on the month six (September 2017) forecast outturn for 2017/18.	£7.6 million
Performance materiality – 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 65% of planning materiality.	£4.9 million
Reporting threshold (i.e. clearly trivial) – 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 (rounded).	£80,000



18. We review and report on other information published with the financial statements including the Performance Report and Accountability Report (which incorporates a Governance Statement and Remuneration and Staff Report). Any issue identified will be reported to the Audit and Risk Committee.

Timetable

19. 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 and Risk Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	1 May 2018
Latest date for final clearance meeting with Director of Finance	5 June 2018
Agreement of audited unsigned annual accounts; Issue of Annual Audit Report including ISA 260 report to those charged with governance	8 June 2018
Submission of Minimum Dataset for NHS Overview report	29 June 2018
Independent auditor's report signed	29 June 2018

Internal audit

20. 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 KPMG LLP overseen by a Chief Internal Auditor.

Adequacy of Internal Audit

21. Our annual assessment of internal audit is based on a standard review programme informed by the Public Sector Internal Audit Standards (PSIAS), review of a range of work carried out by the service and discussions with the Internal Audit Senior Manager.

22. We concluded that the Internal Audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

23. However, we note that KPMG is yet to meet one of the requirements of PSIAS, which requires internal audit to have an external review of PSIAS compliance at least once every five years (PSIAS 1312). Our review of internal audit does not constitute an external assessment for the purposes of PSIAS and should not be considered as such.

Areas of Internal Audit reliance

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

- Financial Controls – Decentralised versus centralised accounting controls
- Property transaction monitoring
- Financial sustainability (Revenue generation)

25. In respect of our wider dimension audit responsibilities we will take account of other areas of internal audit work including:

- Information technology: Business resilience
- Information governance and data security
- VFM: Attendance at work
- Delivery of NSS Strategy
- Contract, stakeholder and project management

26. In addition, we plan to place some reliance on the 2016/17 'Treasury and accounts receivables' and 2015/16 'Payroll – financial controls' work.

Audit dimensions

27. 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

28. 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 consider:

- 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
- whether NHS National Services Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

29. NHS National Services Scotland reported in 2016/17 about funding pressures on the range of services that it provides due to relatively modest increases in funding combined with the requirement to deliver a high level of Cash Releasing Efficiency Savings (CRES). While NHS NSS has maintained a balanced budget, this continues to represent an increasing challenge over the lifetime of the Local Delivery Plan. We will continue to review the Board's medium to long term financial planning in support of its 5 year Local Delivery Plan (see Exhibit 1, no.6).

30. The Scottish Government's Health and Social Care Delivery Plan published in December 2016 outlined the creation of a new public health body by 2019. The Scottish Government has confirmed that people and services within NHS National Services Scotland will transfer to the new body. The new body is also expected to use support services provided by NHS National Services Scotland. We will review the transitional preparations the Board is making for the transfer of services and people to the new body (see Exhibit 1, no.7).

31. There are no other significant financial sustainability risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Financial management

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

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

33. The most recent finance monitoring report forecasts that savings targets will be met by the 2017/18 financial year end; however, until the year end it is not possible to conclude that NHS NSS's financial targets will be met. We will continue to review financial monitoring reports to the Performance and Finance Committee and any updates to the financial plan (see Exhibit 1, no.8).

Governance and transparency

34. 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 consider:

- whether NHS National Services Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, to, or in partnership with).
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

35. The importance of cyber resilience across Scotland's public sector has never been greater. Digital technologies bring enormous opportunities for organizations, but they also bring new threats and vulnerabilities that must be managed. The Scottish Government has drafted a public sector action plan on cyber resilience and draft best practice guidelines on cyber resilience. We shall review NSS's response to cyber security risks, specifically its level of preparedness in light of cyber resilience requirements being introduced by the Scottish Government and its delivery of the key actions specified in the recently published cyber resilience action plan (see Exhibit 1, no.9).

36. NHS National Services Scotland is participating in the two-yearly National Fraud Initiative (NFI) exercise 2016/17. We shall monitor the Board's participation and progress in investigating recommended NFI matches from 2016/17 into 2017/18 and complete an NFI questionnaire which will feed into Audit Scotland's NFI national report to be published in June 2018.

37. There are no other significant governance and transparency risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Value for money

38. Value for money refers to using resources effectively and continually improving services. We consider whether:

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

39. NHS National Services Scotland procures national IT contracts on behalf of NHS Scotland. There are a range of contract models in use, which include complex multi-supplier contracts. NHS NSS's Contract, Vendor and Service Management team has identified risks related to some of these contracts (for example, the Picture Archiving and Communication System (PACS), where mitigating actions have been put in place). It is important that IT procurement for the NHS helps to drive business change and supports future services (see Exhibit 1, no.10).

40. The Scottish Government's Health and Social Care Delivery Plan expects national boards to collaborate in support of the territorial boards' regional planning arrangements. We will consider in due course what impact the development of national boards' collaboration has on our audit of NHS National Services Scotland.

Independence and objectivity

41. 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.

42. The engagement lead for NHS National Services Scotland is Mark Taylor, Assistant Director. Auditing and ethical standards require the appointed auditor Mark Taylor 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 National Services Scotland.

Quality control

43. 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.

44. 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.

45. 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

46. Through our audit work we aim to add value to NHS National Services Scotland. 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 NHS National Services Scotland 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 National Services Scotland

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