



# **2016/17 independent auditor's reports (health boards)**

## **Technical guidance note 2017/3(H)**

 **AUDIT SCOTLAND**

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Foreword

Technical guidance notes are prepared by Audit Scotland's Technical Services Unit (TSU) to provide external auditors appointed by the Accounts Commission and Auditor General for Scotland with guidance to support them in meeting certain responsibilities under the *Code of audit practice*. They cover auditors' responsibilities to audit and report on the annual accounts, and review returns for whole of government accounts and local authority grant claims.

Technical guidance notes are available to external auditors from Audit Scotland's *Technical reference library*, and are also published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

This particular type of technical guidance note is approved by the Assistant Auditor General and provides guidance on reporting the audit of the annual accounts, including model independent auditor's reports.

While appointed auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and the ***Code of audit practice requires auditors to report the results of the audit of the annual accounts in accordance with this technical guidance note.*** Auditors should advise the TSU promptly if they intend not to follow any guidance provided in this technical guidance note.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of technical guidance notes or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in this note.

# 1 Introduction

## Introduction

1. External auditors appointed by the Auditor General for Scotland are required under the *Public Finance and Accountability (Scotland) Act 2000* (the 2000 Act) to provide opinions on health boards' annual report and accounts in an independent auditor's report.
2. Paragraph 94 of the *Code of audit practice* requires the independent auditor's reports to be in accordance with a technical guidance note provided by the TSU.

## Purpose of technical guidance note

3. The main purpose of this technical guidance note from the TSU is to provide those auditors with 'sign off' responsibilities with the model independent auditor's reports which should be used for the 2016/17 annual report and accounts of health boards, along with guidance on their use.
4. The models for 2016/17 are required to comply with *ISA (UK&I) 700 The independent auditor's report on financial statements*. This standard will be replaced from 2017/18 by the new *ISA (UK) 700 Forming an opinion and reporting on financial statements*, which contains a revised structure for the independent auditor's report. Although ISA (UK) 700 does not formally apply, the model reports for 2016/17 have been revised to follow the structure set out in that new standard, while also complying with the minimum requirements of ISA (UK&I) 700. The wording of the model independent auditor's reports at Appendices 1 and 2 is consistent with illustrative examples issued by the Financial Reporting Council but tailored to reflect health sector legislation and augmented by the reporting requirements of the Auditor General for Scotland.
5. Auditors should complete for each report the checklist at Appendix 3 which provides a list of the key auditor actions set out in this technical guidance note.
6. This technical guidance note also provides an assurance statement for the consolidation schedules at Appendix 4.

## Contact point

7. The contact point for this technical guidance note is Paul O'Brien ([pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk) or 0131 625 1795).

# 2 Overview

## Purpose of section

8. This section provides an overview of the model independent auditor's reports in Appendices 1 and 2.

## Changes in 2016/17

9. The model independent auditor's reports for 2016/17 have been changed to
  - follow the revised structure and wording in ISA (UK) 700
  - include new opinions in respect of the performance report and governance statement (which is no longer reported as a matter by exception).

## Summary of auditor's reporting responsibilities

10. When reporting on the audit of the annual report and accounts, auditors of health boards are required by legislation and [international standards on auditing in the UK](#) to
  - express an opinion on whether the financial statements give a true and fair view and are properly prepared in accordance with the accounts direction from the Scottish Ministers
  - express an opinion of the regularity of expenditure and income.
11. Auditors are required by *ISA 720 (UK&I) Section A The auditor's responsibilities relating to other information in documents containing audited financial statements* to read the information in the annual report and accounts, other than the financial statements, and report any material inconsistencies with either the financial statements or the auditor's knowledge.
12. Auditors have other reporting responsibilities prescribed by the Auditor General under the audit appointment which are to
  - express an opinion on whether the auditable part of the remuneration and staff report has been properly prepared
  - express an opinion on whether the performance report is consistent with the financial statements and, as a new requirement for 2016/17, whether it has been prepared in accordance with the accounts direction
  - as a new requirement for 2016/17, express an opinion on whether the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction
  - report conclusions on other matters by exception, including on whether proper accounting records have been kept.
13. An auditor's report would also be required if a board includes summary financial statements in a separate 'glossy' annual report'. As this is considered unlikely to be the case in 2016/17, a

model report has not been provided. However, auditors should contact the TSU if a report is required.

## Summary of model reports

**Auditors should use the correct model report that applies to the health board's circumstances.**

14. In the interests of consistency, auditors are required to use the correct model independent auditor's report in the appendices to this technical guidance note as a condition of their audit appointment.
15. Separate models have been provided to be used depending on whether a board prepared consolidated accounts. Appendix 1 should be used when consolidated accounts have been prepared, and Appendix 2 when they have not.

## Changes to model wording

**Auditors should follow the model wording in each report other than changes required to reflect local circumstances or where a modification to an opinion or conclusion is required.**

16. Where there are no modifications to any opinion or conclusion, the wording in the relevant model should generally be used unchanged, other than to reflect local circumstances.

### Permitted changes - no modifications to opinions or conclusions

17. In order to reflect local circumstances, the only exceptions to using the model wording are
  - the text indicated in the models in [square brackets]
  - other amendments to reflect local terminology.
18. Where text is in [square brackets], auditors should insert the
  - name of the health board
  - precise titles used by the board for the financial statements.
19. Where the appointed auditor is a member of Audit Scotland staff, the reports should be presented in the first person singular. Firms should present the report in the first person plural.
20. Auditors may also have to make amendments to tailor the terminology to reflect local circumstances. This may include amending the names of the performance report, remuneration and staff report, governance statement, and statement of responsibilities to the actual names used by the board.

21. If auditors consider that any other amendments are required to reflect local circumstances, they should contact the TSU.

## Modifications to opinions or conclusions

22. Guidance on modifying an opinion or conclusion is provided in the relevant section of this technical guidance note.
23. However, auditors are required to discuss a proposed modification to any opinion or conclusion, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, with the TSU in advance of finalising the report.

## Title and addressees

24. ISA (UK&I) 700 requires the independent auditor's report to have a title and be properly addressed. The term 'independent auditor's report' should be used in the title to clearly distinguish it from other required reports, such as the annual audit report.
25. The independent auditor's report should be addressed to the members of the health board, the Auditor General for Scotland and the Scottish Parliament.

## 'Bannerman' paragraph

26. The model reports contain a paragraph immediately after the addressees to recognise the judgement in the case of *Royal Bank of Scotland v Bannerman Johnstone Maclay*, which highlighted the potential exposure of auditors to third parties who assert that they rely on audit reports where auditors have not expressly disclaimed responsibility to those third parties.
27. The model 'Bannerman' paragraph explains that the report is made solely to the parties to whom it is addressed and that auditors do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties. The dispensation which allowed auditors to make minor amendments to this wording in previous years no longer applies.

## Structure of model reports

28. The structure of the 2016/17 model reports at Appendices 1 and 2 has been revised to follow the structure in ISA (UK) 700. The models therefore contain the following three main headings
  - Report on the audit of the financial statements (see section 3), which has paragraphs on
    - the opinion on the financial statements
    - the basis for that opinion
    - responsibilities of the Accountable Officer
    - auditor's responsibilities for the financial statements
    - other information.
  - Report on regularity of expenditure and income (see section 4)

- Report on other requirements, which has paragraphs on
  - opinions on other prescribed matters, i.e. the remuneration and staff report, performance report and governance statement (see section 5)
  - conclusions on matters reported on by exception (see section 6).

## Signing and dating

### Overview

#### Auditors should

- **sign and date the report on or after the authorised for issue date**
- **sign the report on behalf of the firm (firms only)**
- **give the full date and postal address**
- **satisfy themselves that the report is appropriately positioned within the document.**

29. ISA (UK&I) 700 requires independent auditor's reports to state the name of the auditor and be signed and dated.

### Signing

30. For audits where the auditor is a member of Audit Scotland staff, the individual should sign the report in their own name.
31. Where the auditor is a firm, for consistency with the *Companies Act 2006*, the report should be signed in their own name by the partner or other individual who is responsible for issuing the report for and on behalf of the firm.
32. Auditors should not sign themselves as 'senior statutory auditor'.

### Dating

33. The date of the report should be the date on which the auditor actually signs the report. Auditors should give the correct day, month and year of their signature, e.g. 30 June 2017. Auditors should not date (and hence sign) the report earlier than the date on which the financial statements have been approved by those charged with governance (i.e. the authorised for issue date) and the auditor has considered all necessary available evidence.
34. Auditors should aim to date the report on the date the financial statements are authorised for issue by the board. If the date on which the auditor signs the report is later than the authorised for issue date, auditors should
- obtain assurance that those charged with governance would have approved the financial statements on that later date (e.g. by obtaining confirmation from the Accountable Officer)

- 
- ensure that audit procedures for reviewing subsequent events cover the period up to that date.

## Address

35. ISA (UK&I) 700 requires the report to name the location of the office where the auditor is based. Auditors should give the full postal address of their office.

## Positioning of the independent auditor's report

36. Paragraph 5.3.28 of the FReM states that the accountability report should include (in the parliamentary accountability and audit report section) the certificate and report of the Comptroller and Auditor General. This is the equivalent of the independent auditor's report used in Scotland.
37. Auditors should encourage boards to locate the independent auditor's report in such a way that it is clear to users of the accounts that it is not covered by the Accountable Officer's signature.

# 3 Report on the audit of the financial statements

## Purpose of section

38. This section provides guidance on the part of the independent auditor's report that relates to expressing an opinion on the financial statements.

## Auditor's responsibilities

39. Auditors are required to express an opinion on whether a health board's financial statements, and those of its group where applicable, give a true and fair view and are properly prepared in accordance with the accounts direction issued under section 86 of the *National Health Services (Scotland) Act 1978*.

## Opinion on financial statements

### Financial statements

**Auditors should list the financial statement they have audited, using the precise titles used by the body.**

40. Auditors are required by ISA (UK&I) 700 to identify the financial statements that they have audited. The financial statements listed in Appendices 1 and 2 are based on the requirements of, and titles used by, the 2016/17 accounts manual.
41. The summary of resource outturn is part of the statement of comprehensive net expenditure. It is not a separate statement and auditors should discourage boards from describing it as such.
42. In the event that a board uses different names or includes other statements, the statements listed by auditors in the independent auditor's report should precisely match the statements and titles actually used by the board. In previous years, there were a number of instances where the titles used by auditors did not precisely match those used by the board which makes it difficult for a user of the accounts to clearly understand the statements that have been audited.

### Reporting framework

43. The independent auditor's report is also required by ISA (UK&I) 700 to indicate the financial reporting framework that has been applied in the preparation of the financial statements.

44. In the health sector, the framework is the *National Health Service (Scotland) Act 1978* and international financial reporting standards as adopted by the European Union, and interpreted or adapted by the FReM.

## Opinion on financial statements

45. ISA (UK&I) 700 requires the independent auditor's report to contain a clear written expression of opinion on the financial statements, based on the auditor evaluating whether
- sufficient appropriate audit evidence as to whether the financial statements as a whole are free from material misstatement has been obtained
  - uncorrected misstatements are material
  - the financial statements, including the related notes, give a true and fair view.
46. As a change in 2016/17, in order to follow the structure in ISA (UK) 700, the paragraphs on the opinion on the financial statements have been relocated to the first section of the model reports.
47. Guidance on the risks of material misstatement in the financial statements is provided by the TSU in [Technical guidance note 2017/2\(H\)](#). The guidance in the modules on the financial statement areas highlights what the TSU considers to be the main risks of misstatement in each area. It also sets out actions for each risk that auditors should undertake to assess whether the health board has followed the required accounting treatment.
48. Auditors are required to clearly state their opinion on the financial statements. An unqualified opinion should be expressed only when auditors conclude that the financial statements
- give a true and fair view of the state of affairs of the board (and, where relevant, the group) for the year ended 31 March 2017, and the net expenditure for 2016/17
  - have been properly prepared in accordance with the 2016/17 FReM
  - have been prepared in accordance with the requirements of the direction from the Scottish Ministers that applies to the preparation of the financial statements.
49. Where auditors do not qualify their opinion on the financial statements, the wording in that part of Appendices 1 and 2 should be used unchanged (other than to reflect terminology used by the board).

## Basis of opinion

50. As a change in 2016/17, in order to follow the structure in ISA (UK) 700, there is a new paragraph in the model reports setting out the basis of the opinion paragraphs.
51. Where auditors do not qualify their opinion on the financial statements, the wording for the basis of opinion paragraph in Appendices 1 and 2 should be used unchanged.

## Modified opinions

### When auditors qualify their opinion on the financial statements, they should

- discuss the proposed qualification with the TSU
- amend the headings and wording in the opinion and basis of opinion paragraphs
- include a description of the matter giving rise to the qualification.

52. *ISA 705 (UK&I) Modifications to the opinion in the independent auditor's report* establishes three types of modified opinions, i.e. a qualified opinion, an adverse opinion, and a disclaimer of opinion. Auditors should modify their opinion when they
- conclude that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
  - are unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
53. Where auditors judge it necessary to express a modified opinion on the financial statements, they should change the model wording as explained in the following paragraphs.

### Qualified opinion

54. Auditors should express a qualified opinion on the financial statements when
- having obtained sufficient appropriate audit evidence, they conclude that misstatements, are material, but not pervasive, to the financial statements (pervasive effects on the financial statements are those that are not confined to specific items of the financial statements or those that are fundamental to users' understanding); or
  - they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but conclude that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
55. Material misstatements may relate to
- specific amounts in the financial statements. Auditors should include in the 'basis for qualified opinion' paragraph a description and quantification of the financial effects of the misstatement (unless impracticable)
  - narrative disclosures. Auditors should include in the 'basis for qualified opinion' paragraph an explanation of how the disclosures are misstated
  - the non-disclosure of information required to be disclosed. Auditors should
    - describe in the 'basis for qualified opinion' paragraph the nature of the omitted information; and
    - include the omitted disclosures (unless impracticable).
56. When auditors qualify their opinion on the financial statements, they should

- amend the heading 'Opinion on financial statements to 'Qualified opinion on financial statements'
  - amend the heading 'Basis for opinion' to 'Basis for qualified opinion'
  - add a new paragraph under the 'Basis for qualified opinion' heading giving a description of the matter giving rise to the qualification. The paragraph under that heading in the models should be retained
  - move the 'Basis for qualified opinion' heading and both paragraphs so this is the first section of the report. This is necessary for 2016/17 because ISA (UK&I) 700 explicitly requires the description of a modification to be placed immediately before the opinion paragraph.
57. When auditors express a qualified opinion due to a material misstatement in the financial statements, they should state in the 'Qualified opinion on financial statements' paragraph that, except for the effects of the matter described in the 'Basis for qualified opinion' paragraph, the financial statements give a true and fair view.
58. Where the qualified opinion results from an inability to obtain sufficient appropriate audit evidence, auditors should
- include in the 'Basis for qualified opinion' paragraph the reasons for that inability
  - state in the 'Qualified opinion on financial statements' paragraph that, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view.

### **Other opinion options**

59. In exceptional circumstances, auditors may have to express an adverse opinion on the financial statements or even disclaim an opinion.
60. Having obtained sufficient appropriate audit evidence, an auditor may conclude that misstatements are both material and pervasive to the financial statements. Where this is the case, it would be appropriate for the auditor to express an adverse opinion.
61. Auditors should state in the 'Adverse opinion on the financial statements' paragraph that, in their opinion, because of the significance of the matter described in the 'Basis for adverse opinion' paragraph, the financial statements do not give a true and fair view.
62. Auditors may have to disclaim an opinion if they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and they conclude that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. Auditors should
- amend the 'introductory' paragraph to state that they were engaged to audit the financial statements
  - state in the 'Disclaimer of opinion on financial statements' paragraph that because of the significance of the matter described in the 'Basis for disclaimer of opinion' paragraph, they have not been able to obtain sufficient appropriate audit evidence to provide a basis for

an audit opinion, and accordingly they do not express an opinion on the financial statements.

## Respective responsibilities

63. ISA (UK&I) 700 requires the independent auditor's report to
- state that those charged with governance are responsible for the preparation of the financial statements and that the responsibility of the auditor is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs
  - explain the scope of the audit of the financial statements.
64. These requirements are met in the model reports by the paragraphs under the headings for responsibilities of the Accountable Officer and auditor's responsibilities. As a change in 2016/17, in order to follow the structure and wording in ISA (UK) 700, the descriptions have been significantly expanded. The models in the original version of this technical guidance note published on 7 March included a link to the FRC website where a further description is located. Following further discussion with auditors, the paragraph containing the FRC link was removed from the models in the technical guidance note re-issued on 27 March.

## Other information

65. ISA (UK&I) 700 requires the independent auditor's report to explain that auditors read all the financial and non-financial information in the document containing the financial statements. As a change in 2016/17, in order to follow the wording in ISA (UK) 700, a new section has been added to the models in respect of responsibility for this other information as part of the audit of the financial statements.
66. The new section explains that under the ISAs (UK&I), specifically ISA (UK&I) 720, auditors are responsible for reading the other information to identify
- material inconsistencies with the audited financial statements
  - any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit.
67. It also explains that auditors do not express any form of assurance conclusion on the other information, except on the specific matters prescribed by the Auditor General for Scotland under the audit appointment (i.e. the opinions on the remuneration and staff report, performance report and governance statement).
68. If auditors identify that revision of the other information (other than the prescribed matters) is necessary, and the board refuses to make the revision, auditors should report it in an 'other matter' paragraph in the independent auditor's report under *ISA (UK&I) 706 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report*.

## Other matter paragraph

**When auditors consider it necessary to draw attention to matters that are relevant to users' understanding of the audit, or they identify other information that requires to be amended, they should**

- **discuss the matter with the TSU**
- **include an 'other matter' paragraph.**

69. In addition to uncorrected errors in other information, an 'other matter' paragraph under ISA (UK&I) 706 should also be used when the auditor considers it necessary to draw users' attention to matters that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report (i.e. an 'other matter' paragraph).
70. An 'other matter' paragraph should only be used for matters not presented or disclosed in the financial statements.
71. 'Other matter' paragraphs are not the appropriate vehicle to deal with the other reporting responsibilities set out in sections 5 and 6 of this technical guidance note. However, ISA (UK&I) 706 states that an 'other matter' paragraph may be used to draw users' attention to a matter relevant to these other reporting responsibilities. Where this is the case, the 'other matter' paragraph should be located beside the reporting responsibility to which it relates.

## Emphasis of matter paragraph

**When auditors consider it necessary to draw attention to matters that are fundamental to users' understanding of the financial statements, they should**

- **discuss the matter with the TSU**
- **include an 'emphasis of matter' paragraph in their report.**

72. ISA (UK&I) 706 also deals with additional communication in the independent auditor's report when the auditor considers it necessary to draw users' attention to matters that are fundamental to users' understanding of the financial statements (i.e. an 'emphasis of matter' paragraph).
73. An 'emphasis of matter' paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Auditors should
- use the heading 'Emphasis of matter', or other appropriate heading
  - include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements
  - indicate that the auditor's opinion on the financial statements is not modified in respect of the matter emphasised.

# 4 Report on regularity of expenditure and income

## Purpose of section

74. This section provides guidance on the part of the independent auditor's report that relates to expressing an opinion on the regularity of expenditure and income.

## Auditor's responsibilities

75. Auditors of health boards are required by the *Public Finance and Accountability (Scotland) Act 2000* to express an opinion on the regularity of expenditure and receipts shown in the financial statements. Although, the Act uses the term 'receipts', normal practice is to refer to 'income'.
76. Auditors are therefore required to report whether, in their opinion, in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.
77. The responsibility to express an opinion on regularity is discharged through the audit of the financial statements. Guidance on the audit of regularity is provided by the TSU in module 4 of [technical guidance note 2017/2\(H\)](#).

## Unqualified opinion

78. Where auditors do not qualify their opinion on regularity, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

## Qualified opinion

### When auditors qualify their opinion on regularity, they should

- discuss the proposed qualification with the TSU
- provide a description of the matter giving rise to the qualification.

79. If auditors are of the opinion that material expenditure was incurred or income applied that was not in accordance with applicable enactments and guidance issued by the Scottish Ministers, auditors should express a qualified opinion in respect of regularity. Any proposed qualified opinion on regularity should be discussed with the TSU in advance of finalising the report.
80. Auditors should
- include a 'Basis for qualified opinion on regularity' paragraph and provide a concise description of the matter giving rise to the qualification

- amend the opinion heading to 'Qualified opinion on regularity', and include the phrase 'except for the effects of the matter described in the basis for qualified opinion on regularity paragraph' after 'In my opinion'.

# 5 Opinion on other prescribed matters

## Purpose of section

81. This section provides guidance on the paragraphs in the independent auditor's report that relate to expressing an opinion (i.e. positive assurance) on the audited part of the remuneration and staff report, the performance report, and the governance statement.

## Auditors' responsibilities

82. In accordance with adopting *Companies Act 2006* requirements as a matter of good practice, auditors are required by the Auditor General to express opinions within their independent auditor's report on whether
- the remuneration and staff report has been properly prepared. See module 5 (section 4) of [technical guidance note 2017/2\(H\)](#).
  - the performance report is consistent with the financial statements and as a new requirement for 2016/17, has been properly prepared in accordance with applicable legal requirements. See module 5 (section 3) of technical guidance note 2017/2(H)
  - as a new requirement for 2016/17, the governance statement is consistent with the financial statements and has been properly prepared in accordance with applicable legal requirements. See module 5 (section 5) of technical guidance note 2017/2(H).
83. Health boards are not required to report compliance with the *UK Corporate governance code*. If a board makes a reference in the governance statement to that code, auditors should contact the TSU as this would trigger additional reporting requirements under ISA 720A.

## Unqualified opinion

84. Where auditors do not qualify their opinion on any of the prescribed matters, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.
85. If a board uses different naming conventions, auditors should use terminology which precisely matches that used by the board (e.g. operating and financial review, or strategic report and directors' report).

## Qualified opinion

**When auditors qualify their opinion on any prescribed matter, they should**

- discuss the proposed qualification with the TSU
- amend the heading and wording of the opinion paragraph

- **add a basis for qualified opinion paragraph**
- **provide a description of the matter giving rise to the qualification.**

86. Any proposed qualified opinion on a prescribed matter should be discussed with the TSU in advance of finalising the auditor's report. Where auditors express a qualified opinion on any of the prescribed matters, they should
- amend the heading 'Opinion on other prescribed matters' to 'Qualified opinion on other prescribed matters'
  - add the phrase 'Except for the matter described in the Basis for qualified opinion on other prescribed matters section of [my/our] report'
  - add a section under the heading 'Basis for qualified opinion on other prescribed matters' and provide a concise description of the matter giving rise to the qualification.

# 6 Matters reported on by exception

## Purpose of section

87. This section provides guidance on the parts of the independent auditor's report that relate to matters reported on by exception.

## Overview

### Auditors should report if

- **adequate accounting records have not been kept**
- **the financial statements and the auditable part of the remuneration report are not in agreement with the accounting records**
- **they have not received all the information and explanations required for the audit**
- **there has been a failure to achieve a prescribed financial objective.**

88. Where auditors are required to report on certain matters by exception, ISA (UK&I) 700 requires auditors to describe their responsibilities under the heading 'Matters on which we are required to report by exception', and incorporate a suitable conclusion (rather than opinion) in respect of such matters.
89. The Auditor General requires auditors to report by exception (i.e. a positive statement is not required) on the matters explained in the following paragraphs.

## Accounting records

90. The *Companies Act 2006* requires the auditors of companies to report if, in their opinion
- adequate accounting records have not been kept
  - the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records.
91. In accordance with adopting *Companies Act 2006* requirements as a matter of good practice, auditors are required by the Auditor General to also report on these matters.
92. The accounting records should comprise an orderly, classified collection of information capable of timely retrieval, containing details of the board's transactions, assets and liabilities. The information should be organised so as to enable a trial balance to be constructed. Auditors should consider accounting records to be adequate if they are sufficient to
- show and explain the board's transactions
  - disclose with reasonable accuracy, at any time, the financial position of the board

- enable the directors to ensure that any accounts required to be prepared comply with statutory requirements.

93. There is a distinction between the accounting records and the accounting control system. If auditors find weaknesses relating to the accounting control system rather than the accounting records, they can still conclude that adequate accounting records have been kept. The weaknesses in the accounting control systems would need to be reported in the governance statement.

## Information and explanations

94. The *Companies Act 2006* also requires the auditors of companies to report if, in their opinion, they have not received all the information and explanations required for the audit.
95. The Auditor General requires appointed auditors in the public sector to also report in the independent auditor's report if they do not receive all the required information or explanations.

## Failure to achieve a prescribed financial objective

96. Auditors are required by the Auditor General to report any failure by a board to achieve a prescribed financial objective. This includes any excess of outturn over the revenue resource limit and capital resource limit.

## Suitable conclusion on matters reported by exception

### No modified conclusion

97. Where auditors do not modify their conclusion, they should use the wording in Appendices 1 and 2 which is 'I/we have nothing to report in respect of these matters'.

### Modified conclusion

**Where auditors modify their conclusion on any matter reported by exception, they should**

- **discuss the proposed modification with the TSU**
- **amend the conclusion wording**
- **provide a description of the matter giving rise to the modification.**

98. Where there is a matter to report, auditors should
- modify the conclusion to 'I/We have the following to report in respect of these matters'
  - provide a concise description of the matter being reported
  - finish with the sentence 'I/We have nothing to report in respect of the other matters'.
99. Where the auditor expresses a modified conclusion in respect of a matter reported by exception this may also give rise to a modification of the auditor's opinion on the financial

statements. For example, if adequate accounting records have not been maintained and as a result it proves impracticable for the auditor to obtain sufficient appropriate evidence concerning material matters in the financial statements, the auditor's report on the financial statements includes a qualified opinion arising from that limitation.

# 7 Assurance statement on consolidation schedule

## Purpose of section

100. This section provides guidance on audit procedures to be carried out on the consolidation templates and the completion of the assurance statement.

## Responsibilities

101. Health boards are required to prepare consolidation templates to facilitate the preparation of the health information included in the Scottish Government's consolidated resource accounts.

102. Auditors are required to complete an assurance statement stating whether the completed templates are consistent with the audited financial statements. Model wording for the assurance statement is provided at Appendix 4.

## Audit procedures

103. Auditors should review the completed templates and conclude whether they are consistent with the financial statements by

- assessing the board's processes and controls for the preparation of the templates
- agreeing the entries on the templates to the corresponding item in the financial statements
- investigating error messages, and ensuring that negative balances are correctly reported
- checking that the templates include all relevant pages i.e. primary statements, notes, SFRs and payment policy and staff absence sheets
- agreeing inter-board trading figures to supporting documentation.

104. Auditors should then

- conclude as to whether the templates are consistent with the audited financial statements. When auditors identify an inconsistency, they should bring it to the board's attention so that it can be eliminated
- complete the assurance statement provided at Appendix 4. If an identified inconsistency is not eliminated, auditors should include a description of the inconsistency in their assurance statement
- submit by 30 June 2017 the templates and accompanying completed assurance statement by e-mail to [alasdair.black@scotland.gsi.gov.uk](mailto:alasdair.black@scotland.gsi.gov.uk).

105. A checklist is included at Appendix 5 of this note which may help auditors in carrying out their responsibilities in relation to the consolidation templates.

# Appendix 1

## Model independent auditor's report – health boards (group)

### **Independent auditor's report to the members of [insert name of health board], the Auditor General for Scotland and the Scottish Parliament**

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

[I/We] have audited the financial statements in the annual report and accounts of [insert name of body] and its group for the year ended 31 March 2017 under the National Health Service (Scotland) Act 1978. The financial statements comprise the [specify precisely the titles of the primary statements used by the board such as the Consolidated Balance Sheet, the Consolidated Statement of Comprehensive Net Expenditure, the Statement of Consolidated Cash Flow, the Statement of Consolidated Changes in Taxpayers' Equity] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of affairs of the board and its group as at 31 March 2017 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

#### **Basis of opinion**

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the board and its group in

accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

### **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accountable Officer, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the financial statements**

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require [me/us] to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the board and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

## Report on regularity of expenditure and income

### Opinion on regularity

In [my/our] opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. [I am/We are] responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Report on other requirements

### Opinions on other prescribed matters

[I am/We are] required by the Auditor General for Scotland to express an opinion on the following matters.

In [my/our] opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

### Matters on which [I am/we are] required to report by exception

[I am/We are] required by the Auditor General for Scotland to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or

- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit; or
- there has been a failure to achieve a prescribed financial objective.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

# Appendix 2

## Model independent auditor's report – health boards (non-group)

### **Independent auditor's report to the members of [insert name of health board], the Auditor General for Scotland and the Scottish Parliament**

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

[I/We] have audited the financial statements in the annual report and accounts of [insert name of body] for the year ended 31 March 2017 under the National Health Service (Scotland) Act 1978. The financial statements comprise the [specify precisely the titles of the primary statements used by the board such as the Balance Sheet, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flow, the Statement of Changes in Taxpayers' Equity] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

#### **Basis of opinion**

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the board in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and [I/we]

have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

### **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accountable Officer, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the financial statements**

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require [me/us] to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements

and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

## Report on regularity of expenditure and income

### Opinion on regularity

In [my/our] opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. [I am/We are] responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Report on other requirements

### Opinions on other prescribed matters

[I am/We are] required by the Auditor General for Scotland to express an opinion on the following matters.

In [my/our] opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

### Matters on which [I am/we are] required to report by exception

[I am/We are] required by the Auditor General for Scotland to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or

- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit; or
- there has been a failure to achieve a prescribed financial objective.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

# Appendix 3

## Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the correct model for the board's circumstances (i.e. group or non-group)?			
2 Have you presented the reports in the correct person (i.e. singular for Audit Scotland staff, plural for firms)?			
3 Have you specified precisely the titles of the primary statements used by the board?			
4 Have you amended the names of the other reports to reflect the actual titles used by the board?			
5 Have you discussed any proposed modifications to audit opinions or conclusions, or ISA 706 paragraphs, with the TSU?			
6 Have you discussed any other proposed amendments to the model wording with the TSU?			
7 Have you <ul style="list-style-type: none"> <li>• signed and dated the report on or after the authorised for issue date?</li> <li>• signed the report on behalf of the firm (firms only)?</li> <li>• given the full date and postal address?</li> <li>• satisfied yourself that the independent auditors report is appropriately located within the annual report and accounts?</li> </ul>			

# Appendix 4

## Assurance statement on consolidation templates

### **Report by the auditors of [insert name of health board] on the consolidation templates for the financial year 2016/17**

#### **Conclusion**

The consolidation templates, which comprise the [specify the content of the consolidation templates] are derived from the audited financial statements of [insert name of health board] for the year ended 31 March 2017.

[I/We] have concluded that the accompanying consolidation templates are consistent, in all material respects, with the audited financial statements.

#### **The audited financial statements and [my/our] report thereon**

[I/We] expressed an unmodified audit opinion on the audited financial statements in [my/our] report dated [insert date of independent auditor's report].

#### **Board responsibility for the consolidation templates**

The Board is responsible for preparing the consolidation templates in accordance with guidance issued by the Scottish Government Health and Social Care Directorates.

#### **Auditor's responsibility for the consolidation templates**

[My/Our] responsibility is to report to you [my/our] conclusion as to whether the consolidation templates are consistent with the audited financial statements. [I/We] carried out [my/our] review of the consolidation templates in accordance with the approach set out in Audit Scotland's technical guidance note 2017/3(H).

[Electronic signature of auditor]

[Name of auditor]

[Full postal address]

[Full date]

# Appendix 5

## Auditor action checklist (Consolidation templates)

	Yes/No/N/A	Initials/date	W/P ref
1 Do the board's processes and controls for the preparation of the templates appear adequate?			
2 Are cells identified as negative in the workbook spreadsheet reported as negative balances in the financial statements?			
3. Are all of the relevant pages included i.e. primary statements, notes, SFRs, payment policy and resource and cash outturn sheets?			
4. Do the entries on the templates (including SFRs) agree with those reported in the financial statements?			
5. Have any error messages been investigated?			
6. Have the inter-board trading figures been agreed to supporting documentation?			
7. Has an electronic version of the templates and a completed assurance statement been submitted to the SGHSCD by 30 June?			