



NHS Education for Scotland

External Audit Report to the Board and the Auditor General for Scotland for the financial year ended 31 March 2020

Board Meeting 25 June 2020

Joanne Brown
Engagement Leader

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Our audit at a glance



We received a good complete set of financial statements including the Performance Report, Accountability Report and Governance Statement.

Good working papers were provided to support the audit process and our queries were responded to quickly by the Finance Team throughout.

This was greatly appreciated by the audit team as it allowed the audit to be delivered efficiently despite the challenges Covid-19 created with the need for remote delivery of the audit.



The Accountability Report is in line with our understanding of NHS Education for Scotland (NES) and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework.

The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder. The disclosures in the Remuneration and Staff report are consistent with underlying payroll records.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This final report to the Board and the Auditor General for Scotland concludes our work.

An audit
underpinned by
quality and adding
value to you



We have issued an **unmodified audit opinion** on the annual report and accounts.



Significant audit risks are: management override of controls and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10. An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020. Our audit procedures in relation to the significant risks did not identify any exceptions with respect to expenditure recognition or evidence of management override of controls.



Materiality is set at £10.34 million, representing approximately 2% of gross expenditure based on the 2019/20 budgeted expenditure of £517 million. Actual expenditure per the audited financial statements was greater than budgeted due to additional allocations, at £553 million and therefore a higher materiality of £11.06 million could have been used.

Taking consideration of the materiality communicated at planning, and materiality applied in prior year audits, we applied materiality of £10.34 million. This represents 1.8% of actual gross expenditure.

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Adding value through our external audit work

First and foremost our objective is to ensure we deliver an external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). Our quality arrangements ensure compliance, giving you assurance over our opinion and the work we perform, driven by our focusing on ensuring audit quality throughout.

Through this Annual Report we seek to provide insight and commentary over certain aspects of NES's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of NES as an organisation. We have acted on feedback received and ensured continuity of the audit in-charge. We discussed approach to remote working at the outset of the year end audit and communicated regularly throughout the audit with key members of the Finance Team to keep them updated as the audit progressed.

We have made a positive contribution at the Audit Committee during the year, sharing our wider NHS and public sector experience including emerging issues and wider insights from England and Wales. We also have representation on NHS Scotland's Technical Accounting Group (TAG) to ensure we have sufficient understanding of the latest technical accounting guidance and practice.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of NHS Education for Scotland. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once the accounts have been laid before parliament, the finalised audit report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft at the NES Audit Committee on 11 June 2020. The final set of annual report and accounts was presented to the Board, alongside this final version of our report for approval on 25 June 2020.

We would like to thank NES management and the finance team for an effective year-end audit process and all their support and assistance throughout.

Structure of this report

As set out in our Audit Plan (January 2020) we consider in accordance with the Audit Scotland Code of Practice that NES meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of NES's arrangements:

- Governance statement disclosures
- Financial management

Covid-19

As a result of the Covid-19 pandemic an additional significant risk – Covid-19 was identified at financial statement level.

This risk reflects the challenges posed by remote working, potential impact of Covid-19 on NES annual report and accounts including areas of judgement and recoverability of balances.

The additional risk was shared with the Audit Committee in April 2020.

The audit process

We received a good complete set of Annual Report and Accounts on 14 May 2020 including the strategic report, corporate governance statement, and director's remuneration report.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the finance team were very quick to respond to our queries.

We have no unadjusted differences to report.

We noted minor disclosure and formatting changes which resulted from our review of the accounts. These have all been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

Audit approach and materiality

Our audit approach was set out in our audit plan presented to the Audit Committee on 16 January 2020. Overall materiality has been set at £10.34 million, approximately 2% of gross expenditure and performance materiality is set at £7.75 million, 75% of materiality. Our planned approach has not changed from that set out in our plan.

Actual expenditure per the audited financial statements was greater than budgeted due to additional allocations, at £553 million and therefore a higher materiality of £11.06 million could have been used. Taking consideration of the materiality communicated at planning, and materiality applied in prior year audits, we applied materiality of £10.34 million. This represents 1.8% of actual gross expenditure.

We report to management any difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020.

Our work completed in relation to the audit risks identified (management override of controls, risk of fraud in expenditure recognition and Covid-19) and our conclusions are set out in this report under key audit matters.

Audit opinion

We are pleased to report that for the financial year ended 31 March 2020 we have issued an **unmodified audit opinion**.

- That the financial statements represent a true and fair view of the organisation for the year to 31 March and at the date of the statement of financial position
- Regularity – expenditure has been incurred in accordance with the purpose of NHS Education for Scotland
- Other prescribed matters (which include the audited information in the remuneration report)

Internal control environment

During the year we sought to understand NES's overall control environment (design) as related to the financial statements. In particular, we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. While we have assessed NES's controls to determine if they are designed to mitigate financial statement risk we don't rely on controls in our approach. As such, our audit is fully substantive and the assessment of control design does not impact on our sample sizes.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we do not place formal reliance on the work of KPMG, NES's internal audit provider during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach.

The opinion of Internal Audit for the year was:

“Significant (with minor improvement) assurance can be given, as there is generally a sound system of internal controls which is designed to meet NES objectives and that controls are consistently applied in the areas reviewed.”

The findings of internal audit are consistent with our knowledge and experience of NES. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement. We have no concerns over Internal Audit's skills and capacity to deliver the internal audit service.

Responding to significant risks

Risk area	Identified audit risks at planning
Risk of fraud in expenditure recognition	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. NES other material expenditure streams relate to Other Educational Support Non-Pay Expenditure (2018/19: £44.543 million).</p> <p>This expenditure includes amounts relating to the education and training support NES provides across different staff groups and includes expenditure funding clinical and non- clinical staff employed by other organisations. For this expenditure we consider there an inherent risk that this may be materially misstated through fraudulent recognition to deliver financial performance targets. Recognising the challenges in meeting financial targets for the current year, incentivising understatement of expenditure, we consider therefore the risk to be understatement of expenditure throughout the year.</p> <p>However, given financial pressures in future years, there may be an incentive to overstate expenditure (particularly around the year end when financial outturn more certain) in order to reduce financial pressure in 2020/21.</p>

Work completed

The audited financial statement value for Other Educational Support Non-Pay Expenditure in 2019/20 is £48,612 million

- Walkthroughs of the controls and procedures over Other Educational Support Non-Pay Expenditure
- Substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement. Our post year end testing covered the period from 1 April – 22 May 2020.
- Substantive testing (at an elevated risk level) of expenditure in the final two months of the year to identify if this has been potentially overstated
- Considered the regularity of expenditure incurred to ensure alignment with the type/nature of NES as an organisation
- Review of accruals, deferred income and provisions, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates

Our conclusion

Based on our testing we can conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of NES (regularity).

Risk area

Management override of controls

Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

Work completed

- Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Our conclusion

Based on our testing we can conclude:

- There was no evidence of management override in our testing of controls.
- NES financial statements do not include material judgements or estimates. We considered the lease dilapidation and the CLO provision, with no matters to report.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of NES.

Risk area

Covid-19

Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Work completed

- Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Our conclusion

Based on our testing we can conclude:

- Covid-19 and remote working did not restrict NES's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Management's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- Management have adequately assessed the impact of Covid-19 on the organisations governance arrangements.

Accounting policies

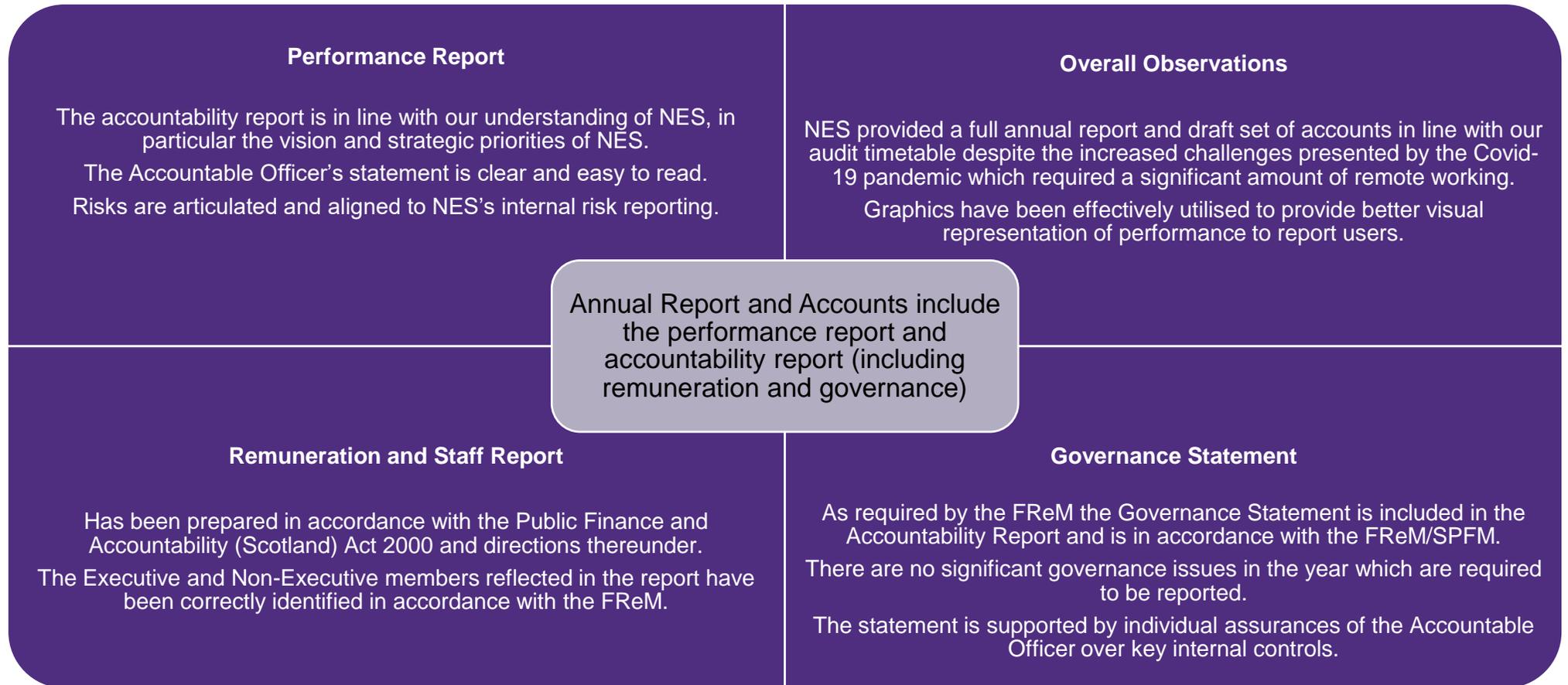
Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	NES receive funding via Scottish Government Health and Social Care Directorate. Other income is received in respect of recharged salaries from other NHS Scotland Boards as part of the Lead Employer Programme.	NES revenue recognition policy is in line with the FReM and NHS Manual for Accounts. We rebutted the risk of fraud within revenue as revenue is primarily government funding. Other revenue sources are recharged salaries from other NHS Boards under the Lead Employer Programme. We consider this is still a reasonable audit approach.	 (GREEN)
Judgements and estimates	NES have disclosed a provision for dilapidations and the annual leave and flexi accrual as key sources of judgement and estimation uncertainty.	NES accounting policy for judgements and estimates is in line with the FReM and NHS Manual for Accounts. We have performed substantive testing on these balances and are satisfied that the judgments and estimates used are appropriate. We agree these are areas of judgement and estimation.	 (GREEN)
Other critical policies	None identified by NES.	We have reviewed the NES accounting policies against the FReM requirements. NES has appropriately tailored the standard accounting policies to its individual circumstances. We recommended a small number of minor disclosure changes, which have been made in the audited financial statements. There are no other policies we would define as being critical to NES and the users of the annual report and accounts.	 (GREEN)

Assessment

-  Marginal accounting policy which could potentially be open to challenge and/or interpretation
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the annual accounts and report. We have considered the consistency of this narrative with our understanding of NES and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



Key aspects of your financial statements

We consider key aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised our conclusions below.

NES's accounting policies are consistent with the NHS Manual of Accounts. No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic.

In relation to the audit risk of fraud in respect of expenditure recognition we tested NES's cut-off arrangements and identified no issues with the recognition period of transactions or in accruals, provisions or deferred income balances which could indicate a higher risk of potential fraud. There are no post balance sheet events or legal uncertainties at year-end.



We identified and gained assurance over the key estimates and judgement, notably the lease dilapidation provisions.

NES as set out in the performance and accountability reports consider themselves a going concern. They have an agreed budget with the Scottish Government for 2019/20 and have in place a 3 year financial framework (medium term framework) albeit at this stage only receive an annual budget allocation from the Scottish Government.

Given NES's role as a National Health Board within NHS Scotland providing education and training to the Health Sector, as well as considering the statutory functions NES has to enable it to fulfil its remit, we agree with managements assertion that NES meets the going concern criteria.

Commentary on NES financial arrangements

The NES budget for 2020/21, approved by the Board on 26 March 2020, underpins the achievement of NES strategic objectives and outlines the financial and operational challenges faced by the Board. The budget highlights that NES would receive no general uplift to the NES recurrent baseline budget again in 2020/21. Additional funding has been awarded by the Scottish Government in respect of the pay award which amounts to an increase of 3.8% as the 2018/19 uplift was previously excluded.

A significant amount of the NES budget is committed to paying the salaries of doctors, dentists, clinical psychologists and others while they are in training, and therefore fixed in nature.

As at the date of this audit report the Scottish Government has not yet approved the Annual Operational Plan or Financial Plan for NES or indeed any of the Health Boards in Scotland.

Following discussion at the Executive Team a non-recurrent contribution of £1 million has been included in the financial plan for the National Boards' savings target. This is additional to NES's required share of £15 million which has been contributed in prior years and recognises the risk that NES is asked to increase its level of contribution.

NES focused on how as an organisation they demonstrate value for money. On an annual basis they undertake a value for money self assessment, across all the core areas of best value, linked to evidence to demonstrate responses and areas identified for further development. This assessment is discussed at the Audit Committee (June 2020) and linked to the Audit Committee's wider considerations before recommending the Annual Report and Accounts to the Board. This is a positive and helpful report that support the annual governance arrangements.



Management have identified an initial budget gap of £23.07 million. Efficiency savings and continuation of agreed non-recurrent measures have reduced the gap to £2.471 million. NES has received confirmation that the remaining gap, related to an underlying recurrent deficit on Medical training grades, would continue to be fully funded by the Scottish Government.

The 2020/21 financial planning assumptions appear reasonable and in line with what we would expect based on our knowledge of NES and prior year arrangements.

NES's workforce plan is reviewed annually to ensure its alignment with updated local, regional and national plans. As in previous years, the plan is in line with NES's vision of 'A skilled and sustainable workforce for a healthier Scotland' and their mission 'Enabling excellence in health and care through education, workforce development and support'. NES, with partners, has also made a substantial contribution to the development of the National Board Plan 'Changing to Deliver 2018-23' specifically in the areas of digital innovation and the development of a sustainable NHS workforce.



Financial Planning 2020/21

The Board approved the budget for 2020/21 on 26 March 2020. The financial plan was developed using a detailed budgeting approach to ensure that forecast income and expenditure was developed, based on key activities for the year. Financial forecasts are reviewed during the year to ensure these remain appropriate.

The financial plan states that NES's available funding is anticipated to be £463.326 million. Requirements submitted by directorates total £486.396 million which presents an initial funding gap of £23.07 million. This gap has primarily arisen from a historic underlying funding gap in Training Grades. Efficiency savings, continuation of agreed non-recurrent measures and allocating income from other sources where possible has reduced the gap to £2.471 million. NES has received confirmation that this gap will continue to be fully funded by the Scottish Government.

	Medical Training Grades		Rest of NES		Total £'000s
	Recurring £'000s	Non-recurring £'000s	Recurring £'000s	Non-recurring £'000s	
Anticipated budget available	261,963	0	201,363	0	463,326
Directorate budget submissions 2020/21	275,235	0	199,585	(62)	474,758
Additional Funding Requests	0	0	888	153	1,041
National Board Savings contribution				1,000	1,000
Medical Training Grade costs pressures	0	9,597			9,597
Budget Required	275,235	9,597	200,473	1,091	486,396
		284,832		201,564	
Initial Budget Gap	(13,272)	(9,597)	890	(1,091)	(23,070)
		(22,869)		(201)	
Recruitment Lag			1,000	800	1,800
Recycle Training Grade funding		17,917			17,917
Other Income				323	323
Procurement savings				300	300
Efficiency Savings from Directorates			259		259
Total Potential Available Budget	0	17,917	1,259	1,423	20,599
Net Budget Required	275,235	(8,320)	199,214	(332)	465,797
Remaining Gap	(13,272)	8,320	2,149	332	(2,471)
		(4,952)		2,481	(2,471)
Residual Gap to be underwritten by SG					2,471
Balance					0



In addition to the expected recurring baseline funding above it is anticipated that over £87 million will be received in 2020/21 on a non-recurrent basis (as at March 2020 £50 million of this is considered to be confirmed). The majority of this funding will be through the Scottish Government and includes;

- Medical Education Package and Additional Cost of Teaching – c.£12 million (confirmed)
- Pharmacy Education and Training – c.£11 million (confirmed)
- Children and Adolescent Mental Health Services Taskforce – c.£5.2 million (confirmed)
- Mental Health Funding – c.£13 million (unconfirmed)
- Expansion posts including GP100 – c.£10 million (unconfirmed)

The financial plans in place are based on reasonable assumptions and are appropriate based on our understanding of NES. NES will continue to monitor these forecasts alongside the actual financial position during 2020/21 to ensure they still remain realistic and achievable.



National Board collaboration

Following discussions amongst the Executive Team a non-recurrent contribution of £1 million has been included in the financial plan for the National Boards' savings target. This is additional to the required contribution already made by NES to the National Boards savings target of £15m. The contributions have not been revisited following the outbreak of Covid-19, given the additional pressures on health boards there may be further revision to this when the pandemic subsides



Governance arrangements

NES has a stable governance structure with the Board supported by an established structure of standing committees of the Board with clearly defined remits including the Staff Governance, Digital, Remuneration, Educational and Research Governance, Finance and Performance Management, and Audit Committees. The Board meets regularly during the year to both set and monitor the delivery of the Board's strategic priorities. We found the level of reporting to the Board and its committees to be appropriate.

The Board of NES completed the Board self-assessment in relation to the Blueprint for Good Governance. Board members considered the results of the self-assessment to be a fair reflection of the Board's performance and a sound foundation for further efforts to enhance assurance. An action plan has been developed as a focussed and concise response to this self-assessment. The Board has continued to monitor progress against the Action Plan and as at March 2020 there were five actions outstanding with estimate completion dates between March and May 2020.

Board composition has remained relatively stable throughout the year. One new Executive Board Member was appointed in December 2019 to the post of Acting Director of Medicine while the existing Director of Medicine took up the role of Acting Chief Executive.



Board effectiveness and transparency

The Board undertakes a regular assessment (every 18 to 24 months) of its own effectiveness to ensure that it is in line with current best practice. There are defined scheme of delegation and policies and procedures in place to ensure that there is clear understanding of respective responsibilities across NES.

NES demonstrate a commitment to transparent public reporting. Board minutes and supporting papers are published online as well as committee remits and a range of corporate publications detailing the Board's underlying performance and activities. This is an area NES will continue to review during 2020/21 alongside any national governance messages.



Fraud and irregularity

NES has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at NES during the course of the year and have confirmed this with management.

The Board participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. Of a total of 803 matches, 801 have been processed and 2 are currently being investigated with the associated organisations. 1 of the outstanding matches is classified as high risk.

We found NES's arrangements for participation in the NFI exercise during 2019/20 to be satisfactory. The Board has effective arrangements in place for the submission of data and investigation of potential matches.

NES response to Covid-19

Covid-19 has presented a wide variety of challenges for NES. NES has taken a number of actions to ensure appropriate governance is exercised in relation to risks arising from the pandemic. NES's response appears proportionate and appropriate and continues to adapt as the course of the virus changes.

We have included some key actions taken by NES below representing the organisation's early response. We consider the response to be thorough and proportionate however we have not performed a comprehensive risk assessment over NES response to Covid-19 given the continuing evolution of the pandemic:

Governance structure

To enable the realignment of NES resource, it was agreed that changes were required to the Board and Committee structure to enable robust governance processes to be maintained throughout the pandemic.

This has resulted in the standing down of several committees however urgent papers from those committees are being routed through the Audit Committee. This has required a temporary change to the Audit Committee remit. Given the timing of the pandemic this only impacted the final weeks of the financial year but will continue to impact the organisation into 2020/21.

As a consequence of the move to predominately home working and the anticipated sickness absence levels, amendments were also required to the Standing Financial Instructions to ensure that bottlenecks did not occur in key business processes.



Decision making

A Decisions Log has been created to record key decisions taken by the Extended ET during the pandemic. The log also includes notes of key discussions, actions and events. The log is updated daily by members of the CE Office/Board Services team who minute the meetings.

The Decisions Log was included in the Covid-19 update paper that was submitted to the NES Board on 28 May.

Financial governance

In order to ensure adequate financial governance is exercised throughout the pandemic the following actions have been taken:

- Weekly forecasts of COVID-19 related costs are submitted to Scottish Government.
- Ensure attendance at weekly Corporate Finance Network meetings which include finance representatives from SG, all boards, COSLA and IJB representatives.
- Ensure attendance at weekly Directors of Finance meetings,
- Counter Fraud Services within NSS has released a video reminding staff of fraud risks.
- Daily meetings with Finance Heads of Service to discuss current issues, review and identify key risks and processes and amend authorisations and procedures to mitigate as required.
- Representation at daily Covid Accelerated Recruitment Portal meetings to ensure that the financial implications of decisions taken are well understood and incorporated into payroll processes and financial returns.

Risk management

An overall organisation risk has been included in the Corporate Risk Register in relation to Covid-19.

In addition, a Covid specific risk register has been created incorporating the top 2 Covid risks from each directorate and providing details of all the mitigating actions and controls. These were submitted for consideration of the audit committee on 30 April 2020.

Appendices

- Audit adjustments
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

Our audit testing identified a related party, Royal College of Surgeons of Edinburgh, with whom NES had entered transactions in the year which had been omitted from the disclosure in the draft annual accounts. This was highlighted to management and updated in the subsequent version of accounts. The value of transactions with this related party were expenditure of £45k and income of £36k and thus below our trivial threshold.

There were a number of minor disclosure adjustments to the draft accounts received for audit which were identified by the finance team through the ongoing review process.

In addition, we noted minor disclosure and formatting changes which resulted from our review, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

Audit fees and independence

External Audit Fee

	Fees £
External Auditor Remuneration	50,540
Pooled costs	5,680
Contribution to Audit Scotland costs	2,870
Contribution to Performance Audit and Best Value	-
2019/20 Fee	59,090

Fees for other services

Service	Fees £
We confirm there are no non-audit fees for the 2019/20 audit	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the FRC's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Full details of all fees charged for audit is included in this report. We confirm that we have implemented policies and procedures to meet the requirements of the FRC's Ethical Standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Fraud arrangements

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

As part of our audit work we are responsible for:

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

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

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

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Education for Scotland we will report to the Auditor General as required by Audit Scotland.

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

It is NHS Education for Scotland responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

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

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

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Education for Scotland arrangements in response to the National Fraud Initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Communication of audit matters

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

This document, our Annual Report is issued prior to approval of the financial statements and presents key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Our communication plan

	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NHS Education for Scotland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures Included within this report, on pages 10, 11 and 12		•
Significant findings from the audit. Included within this report, including conclusions on significant audit risks.		•
Significant matters and issues arising during the audit and written representations that have been sought Letter of representation received and any more significant matters discussed are within this report.		•
Significant difficulties encountered during the audit None were identified. Our audit was completed remotely due to Covid-19 restrictions		•
Significant deficiencies in internal control identified during the audit None identified		•
Significant matters arising in connection with related parties None identified. One minor disclosure amendment made, shown in Appendix 1.		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements None		•
Non-compliance with laws and regulations None identified		•
Unadjusted misstatements and material disclosure omissions None identified		•
Expected modifications to the auditor's report, or emphasis of matter No modifications or emphasis of matter to report.		•



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