

NHS Forth Valley

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for NHS Forth Valley

March 2021



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Risks and planned work

- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
- 2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 3.** The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

- 5.** We aim to add value to NHS Forth Valley through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Forth Valley promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for NHS Forth Valley. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Management Source of Assurance	Planned Audit Work
Financial statements risks		
1 Risk of material misstatement due to fraud caused by the management override of controls	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year.
2 Risk of material misstatement caused by estimates and judgements in the valuation of land and buildings	<p>Valuations of all land and buildings are re-assessed by valuers under a five-year programme of professional valuations and adjusted in intervening years to take account of movements since the last valuation.</p> <p>The valuations are carried out in accordance with the RICS Approval and Valuation Manual.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of Management's expert' for the professional valuer. Review of external valuations performed in year, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals. Review of the controls in place by management to limit the risk of material misstatement within the valuation. Review of the information provided to the valuer to assess for completeness Review and assess the reasonableness of external valuations.
3 Risk of material misstatement caused by estimates and judgements in the assessment of provisions	<p>The clinical and medical negligence provision is calculated using information received from the Central Legal Office regarding the claims they have received relating to NHS Forth Valley.</p> <p>The NHS Board's share of NHS Scotland CNORIS liability is estimated based</p>	<ul style="list-style-type: none"> Completion of 'review of the work of Management's expert' for the Central Legal Office (CLO). Review of information provided by the CLO in support of the provisions held by NHS Forth Valley for clinical and medical legal claims and CNORIS.

 Audit Risk	Management Source of Assurance	Planned Audit Work
<p>provisions are based on the assessed likelihood and settlement value of claims against the health board.</p>	<p>on actual settlement trends in prior years.</p> <p>The impact of these provisions is mitigated since a substantial proportion of the provision is recoverable from the Scottish Government.</p>	<ul style="list-style-type: none"> Review of the controls in place by management to limit the risk of material misstatement within the estimation.
<p>4 Risk of material misstatement over COVID-19 expenditure</p> <p>The COVID-19 pandemic arose in the months prior to the start of the 2020/21 financial year, requiring a rapid response from NHS Forth Valley.</p> <p>Due to the unanticipated nature and quick deployment of expenditure in response to the pandemic, we have assessed that there is a significant risk of material misstatement in this area.</p>	<p>COVID-19 related expenditure is recorded and reported to Scottish Government on a regular basis to inform funding allocations and financial position.</p> <p>A Covid-19 finance working group is in place and has met regularly during 2020/21 to provide oversight and coordination of financial implications, together with Integration Authority finance colleagues.</p>	<ul style="list-style-type: none"> Review of the controls applied to COVID-19 expenditure and the operation of these controls. Review and assess impact on the financial statements, including disclosures arising from COVID-19 related expenditure. Possible focussed substantive testing of COVID-19 related expenditure to assess the occurrence, accuracy and completeness of transactions as well as year-end testing to assess whether transactions have been accounted for in the correct accounting period.

Wider dimension risks

<p>5 Financial sustainability</p> <p>NHS Forth Valley reported an overspend of £0.048m million as at 31 October 2020, with a projected balanced outturn position as at 31 March 2021.</p> <p>NHS Forth Valley have created savings plans for a number of years in response to cost and funding pressures, with a savings requirement of £20.6 million assessed for 2020/21. As a result of the COVID-19 pandemic many actions supporting savings plans were paused. The latest assessment of annual savings deliverable indicates a gap of approximately £5.9 million, which is anticipated to be funded by Scottish Government. The majority of achieved savings are non-recurring and will therefore add to the savings requirement in future years.</p> <p>Despite a projected balanced position for 2020/21, NHS Forth Valley's ability to respond to longer term financial challenges has been</p>	<p>Savings plans have been developed in consultation with System Leadership Team colleagues.</p> <p>A Corporate programme Management Office has been established to provide project management and capacity support to delivery of the cost improvement programme.</p> <p>Performance against agreed targets is monitored monthly. All savings are risk assessed regarding the likelihood of being achieved and the impact on service delivery.</p> <p>A five-year financial plan has been prepared and is updated annually.</p>	<ul style="list-style-type: none"> Review and assess year-end position and the progress and impact in delivering savings. Review and consider the medium-term financial plan and mobilisation plan.
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 Audit Risk	Management Source of Assurance	Planned Audit Work
	<p>disrupted by the COVID-19 pandemic. As a result, there is a risk to financial sustainability and the sustainability of services in future.</p>	
6 Performance	<p>NHS Forth Valley has historically struggled to achieve the eight key waiting times targets. Whilst several targets were still missed in 2019/20 there were overall improvements in performance.</p> <p>In 2020/21, the national response to the COVID-19 pandemic has significantly affected NHS Forth Valley's normal service provision.</p> <p>The continuing pressures of the pandemic, both operational and financial, result in a risk that NHS Forth Valley will not be able to meet the performance expectations of its stakeholders.</p>	<p>Performance measures continue to be closely and monitored and are reported on a weekly basis on the weekly performance update report.</p> <p>A COVID-19 scorecard has been developed and is issued regularly to managers to provide a snapshot position, RAG status and trend across key performance measures.</p> <p>The governance process for Performance issues is through the Performance and Resources Committee.</p> <ul style="list-style-type: none"> Review of progress in achieving targets, understanding the impact of COVID-19 on non-financial performance and the actions being taken to manage performance.

Source: Audit Scotland

7. As set out in ISA(UK) 240, there is a presumed significant risk of material misstatement due to fraud in revenue recognition. We have rebutted this presumed risk in 2020/21 because, while the possibility of fraud exists, we do not judge it to be significant risk due to the nature of NHS Forth Valley's revenue streams.

8. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is also presumed to exist for expenditure. Due to the nature of NHS Forth Valley's expenditure, we have also rebutted the significant risk of material misstatement due to fraud in expenditure in 2020/21.

9. We have therefore not incorporated specific work into our audit plan in these areas over and above our standard fraud procedures.

Reporting arrangements

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

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

12. We will provide an independent auditor's report to NHS Forth Valley, Scottish Parliament and the Auditor General for Scotland, setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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

Exhibit 2

2020/21 Audit outputs

Audit Output	Target Date	Committee Date
Annual Audit Plan	31 March 2021	Issued to members prior to 12 March 2021 Audit Committee
Independent Auditor's Report	31 August 2021	TBC
Annual Audit Report	31 August 2021	TBC

Source: Audit Scotland

Audit fee

14. The proposed audit fee for the 2020/21 audit of NHS Forth Valley is £150,650 (2019/20: £147,000). In determining the audit fee we have taken account of the risk exposure of NHS Forth Valley, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes timely receipt of the unaudited annual report accounts, with a complete working papers package by the end of the first week in May 2021.

15. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

16. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

17. The audit of the annual report and accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

18. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Annual report and accounts

20. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

21. We will give an opinion on whether the 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 affairs of the board and its group as at 31 March 2021 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 2020/21 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.

22. We also review and report on statutory other information published within the annual report and accounts including the Performance Report, Governance Statement and the Remuneration and Staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

23. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

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



25. We determine materiality at different levels as described below. The assessed materiality values for planning purposes for the 2020/21 audit of NHS Forth Valley are set out in [Exhibit 3](#). We will reassess the levels of materiality upon receipt of the 2020/21 accounts for audit.

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£7.300 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£5.500 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£0.183 million

Source: Audit Scotland

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

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

Financial management

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

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

29. As part of our work this year we will broaden our consideration of these matters in light of the impact of the COVID-19 pandemic.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Forth Valley can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

31. Again, as part of our work this year we will assess these arrangements in light of the impact of the COVID-19 pandemic.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Forth Valley can demonstrate:

- value for money in the use of resources
- a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- sufficient focus on improvement and the pace of it.

Best Value

33. The Accountable Officer of NHS Forth Valley has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

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

35. The engagement lead (i.e. appointed auditor) for NHS Forth Valley is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Forth Valley.

Quality control

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

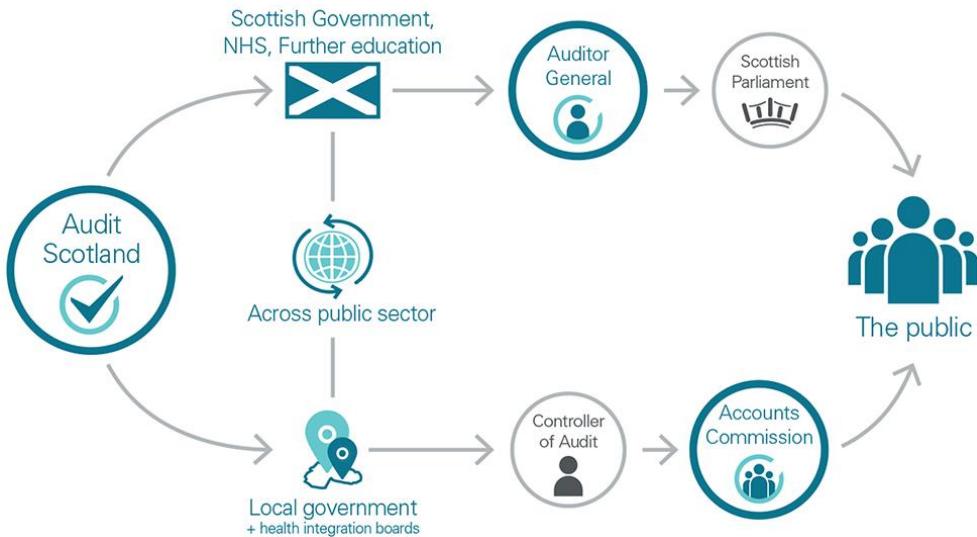
37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Appendix 1: Who we are

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

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



About us

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

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

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

NHS Forth Valley

Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk