



THE SCOTTISH OFFICE

National Health Service in Scotland
Management Executive

Dear Colleague

NHS STATUTORY AUDIT

Summary

1. This circular sets out the changes required as a result of transferring responsibility for NHS Statutory Audit to the Accounts Commission from 1 April 1995. "Statutory" audit will in future be referred to as "External Audit".

2. During discussion with the Accounts Commission it has been emphasised that the Commission will significantly increase input on certain aspects of the audit, eg, probity, irregularity, fraud and corruption, as well as economy, efficiency and effectiveness in the use of NHS funds. There will also be a significant increase in value for money investigations. These changes inevitably lead to an increased man-day input with consequent costs. Additional funds to meet these costs were included in allocations distributed to Health Boards in December 1994.

Main Changes

3. The annex attached sets out in detail the main changes under the following headings:

- . Transitional Arrangements and Funding
- . Reporting Arrangements
- . Emphasis of Audit
- . Signing of Accounts
- . Other Matters

4. Any enquiries about this circular should be addressed to Mr R J Chisholm in the Management Executive.

Yours sincerely

DAVID J PALMER
Deputy Director of Finance

COMMON SERVICES AGENCY		NHS MEL(1995)20
RECEIVED: 4 APR 1995		
FILE No.		
REFERRED TO	ACTION TAKEN	
30 March 1995		

Addressees

General Managers,
Health Boards

Chief Executives,
NHS Trusts

General Manager:

Common Services
Agency

Health Education
Board for Scotland

Scottish Council for
Postgraduate Medical
and Dental Education

Mental Welfare
Commission

State Hospital

Enquiries to:

Mr R J Chisholm
HHD Management
Executive
Finance Directorate
Room 251
St Andrew's House
EDINBURGH
EH1 3DG
Tel: 0131 244 2129

NHS EXTERNAL AUDIT: ARRANGEMENTS FOR THE TRANSFER OF RESPONSIBILITY TO THE ACCOUNTS COMMISSION FROM 1 APRIL 1995 AND THE OPERATIONAL IMPLICATIONS

1. This circular provides information about the main aspects of transfer of responsibility for NHS External Audit to the Accounts Commission from 1 April 1995 and how this will impact on the Service.
2. From 1 April 1995 the Accounts Commission will assume statutory responsibility for NHS external audit in Scotland. This will include all Health Boards, NHS Trusts and other health authorities including the Common Services Agency, the State Hospital, the Health Education Board for Scotland, the Scottish Council for Postgraduate Medical and Dental Education and the Mental Welfare Commission. The Commission will also have responsibility for GP Fundholders' accounts as part of the Health Board audit process. The audits will be carried out by Accounts Commission staff and by private sector firms appointed by the Commission. The NHS Management Executive will retain the statutory responsibility for summarising all Health Service accounts and for liaison with the Accounts Commission, the National Audit Office and Treasury as appropriate. On questions of proper accounting practice, the application of accounting standards and format of accounts both the Management Executive and the Accounts Commission will be involved in discussions with other Government Departments, the National Audit Office, Treasury and the Service as appropriate.

TRANSITIONAL ARRANGEMENTS AND FUNDING

3. The Commission takes formal responsibility for statutory NHS audit on 1 April 1995. At that point the work on the 1994-95 NHS audits which was started by the Scottish Office Audit Unit (SOAU) and private sector firms towards the end of 1994 will be partially completed. This audit work and the costs associated with it will be funded by the Management Executive. The costs associated with the SOAU audits for 1994-95 (whose staff will be employees of the Accounts Commission after 1 April 1995) will be paid to the Accounts Commission by the Management Executive. For audits undertaken by the private sector firms, the 1994-95 audits will be funded by the Management Executive and paid directly to the private firms concerned in the usual way. For health authorities therefore there are no cost implications relating to the 1994-95 audits.
4. However, health authorities will have to budget for the portion of the costs of the 1995-96 audits falling due within the 1995-96 financial year, which should be approximately half the estimated full year costs. The Commission's current best estimate, which has already been circulated to the Service, is that these costs will amount to £1.6m in 1995-96. This compares to an estimated full year cost, for 1996-97 of some £3.7m. Health authorities have been given indicative inputs in terms of man days as a means of calculating the likely costs of audit.
5. For the 1995-96 audit, and for future years, the Accounts Commission will be responsible for appointing the auditors, fixing fees and invoicing health authorities directly whether or not private sector firms are involved. Equally, there will be no difference in the charging rates or the billing arrangements for all audit work: payments will be by health authorities to the Accounts Commission.

6. Regulations in respect of these arrangements have been drawn up and are operative from 1 April 1995. A copy of these is attached for information. It should be noted that the precise instalments of payment for audit work will be a matter for the Accounts Commission to determine. This is likely to be similar to the arrangements for local authority payments ie payable in several tranches over the year. Funding for the cost of audit was included in Health Boards' allocations for 1995-96. NHS Trusts should ensure that the contracting process takes full account of the cost of audit.

EMPHASIS OF AUDIT

7. Audits from 1995-96 onward will be undertaken within a new statutory framework by the Accounts Commission. The framework imposes new statutory duties both on the Accounts Commission in the form of VFM studies and on auditors in terms of requiring them to appraise the arrangements in place by NHS bodies to achieve economy, efficiency and effectiveness. Auditors are also required to report instances of illegality or potential illegality which they have reason to believe have arisen or are likely to arise. The code of audit practice approved by the Accounts Commission specifically to cover public sector audit will be suitably amended to incorporate the NHS sector. This requires a much wider based audit which addresses matters of probity, irregularity, fraud and corruption as well as the newly introduced statutory functions. This new audit regime will be augmented by technical support from the Controllers' office and will be subject to an ongoing quality appraisal process. The nature and scale of the technical support and quality control required will be for the Accounts Commission to determine. These factors are reflected in the higher cost of external audit for future years.

8. The combination of the new statutory duties, the need for a more broadly based audit and the continuing development of NHS reforms means that the nature of the audit process in the NHS will differ significantly from what has applied previously. There will be a considerably greater emphasis on value for money work. VFM topics chosen for study by the Commission as part of the central studies programme will be a matter for discussion between the Management Executive, audited health bodies and the Accounts Commission.

REPORTING ARRANGEMENTS

9. NHS Trusts, like Health Boards, have an obligation to hold an annual public meeting at which the accounts, the audit certificate and the annual report are presented. The Accounts Commission's policy is that annual reports should specifically mention the availability of the auditors' report and that any member of the public may apply for a copy. This is in line with the Government's policy of openness in relation to public bodies. Other communications relating to reporting arrangements such as management letters will not, however, normally be in the public domain. Where an auditor reports to the Controller of Audit of the Accounts Commission on items which might be unlawful and give rise to loss or deficiency, these will be passed to the Secretary of State and the Chief Executive of the Management Executive. They can arise at any time, not simply at the end of audit. Any reports prepared by the Accounts Commission may be referred to by the Public Accounts Committee.

SIGNING OF ACCOUNTS

10. Signing of the 1994/95 audited accounts will be by the private sector firm or by the appointed auditor where carried out by ex-SOAU personnel. The signing of the accounts for future years will be in accordance with practice determined by the Accounts Commission.

11. For NHS Trusts the audited accounts for 1994-95 will be signed by 31 July and for Health Boards by 30 September for 1994-95. Certification dates in future years will be determined by the Management Executive in consultation with the Accounts Commission, the National Audit Office, the Treasury and auditees.

OTHER MATTERS

12. The Accounts Commission intends to maintain a broad balance taken across all of its activities between private sector audit work and audit undertaken by the Commission's own staff. The way in which statutory auditors are chosen, whether Commission staff or private sector firms and which private sector firms are assigned to particular health bodies will be a matter for consultation between the Accounts Commission and the auditees. The Accounts Commission will endeavour to promote continuity, in the interests of good working relationships, and audit expertise where possible. They will also take into account the geographical spread of the work and the private sector involvement with local authority audit, when planning assignments. The Commission intends that in the future the audit portfolios of both Accounts Commission staff and private sector auditors will contain both NHS and local authority audit work.

13. The Commission does not have statutory responsibility for auditing endowment and patient funds.

14. It had been hoped to have a Framework Document setting out the respective responsibilities of the Accounts Commission and the Management Executive drawn up prior to 1 April 1995. Although this has not been possible the work should go ahead with a view to completing the Framework Document in April or May. The final version will be circulated to all health bodies as soon as possible.

ME Finance Directorate
March 1995

1995 No. 698 (S.56)

NATIONAL HEALTH SERVICE, SCOTLAND

**The National Health Service (Expenses of Audit)
(Scotland) Regulations 1995**

<i>Made</i> - - - -	<i>9th March 1995</i>
<i>Laid before Parliament</i>	<i>10th March 1995</i>
<i>Coming into force</i>	<i>1st April 1995</i>

The Secretary of State, in exercise of the powers conferred on him by section 98(1)(c) of the Local Government (Scotland) Act 1973(a) and of all other powers enabling him in that behalf, and after consultation with such organisations connected with the health service as appear to him to be concerned, hereby makes the following Regulations:

Citation, commencement and interpretation

1.—(1) These Regulations may be cited as the National Health Service (Expenses of Audit) (Scotland) Regulations 1995 and shall come into force on 1st April 1995.

(2) In these Regulations—

“the 1973 Act” means the Local Government (Scotland) Act 1973;

“the Commission” means the Accounts Commission for Scotland established under section 97(1) of the 1973 Act(b);

“health service body” means a body referred to in section 97(2)(a)(ii) or (iv) of the 1973 Act;

“net expenses of the Commission” means such part of the expenses of the Commission relating to their functions with respect to health service bodies as is not met by grants under section 98(1)(a) of the 1973 Act.

Expenses

2. The net expenses of the Commission incurred in the financial year 1995-96 shall be met as follows:—

(a) the part of those expenses which is incurred by the Commission in securing the audit of the accounts of any health service body or any State Hospital Management Committee constituted under section 91 of the Mental Health (Scotland) Act 1984(c) in respect of the financial year 1994-95 shall be reimbursed by the Secretary of State;

(b) the part of those expenses which is incurred by the Commission in securing the audit of the accounts of any health service body in respect of the financial year 1995-96

(a) 1973 c.65; section 98(1)(c) was inserted by the National Health Service and Community Care Act 1990 (c.19), Schedule 7, paragraph 5.

(b) Section 97(1) was amended by the National Health Service and Community Care Act 1990 (c.19), Schedule 7, paragraph 2.

(c) 1984 c.36.

shall be met by each of the health service bodies in accordance with the following formula:-

$$A \times \frac{B}{C}$$

where:

- (i) A is the part of the net expenses of the Commission in respect of the audit for the financial year 1995-96;
- (ii) B is the number of hours during which an auditor or employee of an auditor is engaged, on behalf of the Commission, in the financial year 1995-96 on the audit of the accounts of that health service body for that financial year;
- (iii) C is the number of hours during which an auditor or an employee of an auditor is engaged, on behalf of the Commission, in the financial year 1995-96 on the audit of the accounts of all health service bodies for that financial year.

3. The net expenses of the Commission incurred in the financial year 1996-97 and in each subsequent financial year shall be met by each of the health service bodies in accordance with the following formula:-

$$D \times \frac{E}{F}$$

where-

- (a) D is the net expenses of the Commission in such a financial year;
- (b) E is the number of hours during which an auditor or an employee of an auditor is engaged, on behalf of the Commission, in that financial year on the audit of the accounts of that health service body; and
- (c) F is the number of hours during which an auditor or an employee of an auditor is engaged, on behalf of the Commission, in the financial year mentioned in paragraph (a) above on the audit of the accounts of all health service bodies.

4. Each health service body shall pay to the Commission-

- (a) such instalments in respect of the amounts due by the body for a financial year under regulations 2 and 3 of these Regulations, and
- (b) at such intervals in that financial year,

as may be agreed between the body and the Commission or, in the case of disagreement, as may be determined by the Secretary of State.

New St Andrew's House, Edinburgh
9th March 1995

Fraser of Carmyllie
Minister of State,
Scottish Office

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision as to how the expenses of the Accounts Commission for Scotland in relation to their functions with respect to health service bodies is to be met by those bodies whose accounts will be audited by the Commission.



1995 No. 698 (S.56)

NATIONAL HEALTH SERVICE, SCOTLAND

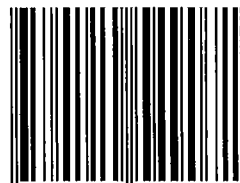
**The National Health Service (Expenses of Audit)
(Scotland) Regulations 1995**

£1.10 net

Printed by HMSO Print Centre

800 WO 3348 C11 3/95 452/4 19593 PS 310109 (087597)

ISBN 0-11-054907-4



9 780110 549071