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Healthcare Improvement Scotland

Annual report to Those Charged with Governance and the Auditor General for Scotland

Year ended 31 March 2015

June 2015

PricewaterhouseCoopers
181 Bothwell Street
Glasgow
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Audit Committee Members
Healthcare Improvement Scotland
Gyle Square
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Edinburgh
EH12 9EB

22 June 2015

Ladies and Gentleman,

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2015. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in March 2015. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 22 June 2015. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are:

- Completion activities including subsequent events review;
- Receipt of management representation letter; and
- Approval and signing of accounts.

We will provide an oral update on these matters at the meeting on 22 June 2015.

We look forward to discussing our report with you on 22 June 2015. Attending the meeting from PwC will be Martin Pitt.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

Section 1. Executive summary

Introduction

We set out in this report our significant findings from our audit of Healthcare Improvement Scotland ("HIS") for 2014/15, together with those matters which auditing standards require us to report to you as "those charged with governance" of HIS.

We carried out our audit work in line with our 2014/15 audit plan that we presented to you in March 2015. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing ('ISAs') (UK and Ireland)) and the Code of Audit Practice ('the Code').

The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. We have conducted our audit in accordance with the relevant requirements of the Code.

Respective Responsibilities of Management and Auditors

Management

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of HIS and its expenditure and income for the year ended 31 March 2015; and
- preparing a Directors' Report, a Strategic Report, a Governance Statement and a Remuneration Report.

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of HIS and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

Financial Statements

As a result of our work, we proposed a number of disclosure audit adjustments to the draft financial statements. We note that there were no misstatements identified during the audit process.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on 22 June 2015.

Financial performance

HIS's key financial performance for the period is as follows:

- The final outturn was £20.002m against a revenue resource limit of £20.395m, resulting in a saving of £0.393m.
- Capital expenditure in the period was £0.047m which was within the core capital resource limit of £0.050m.
- The budget for 2015/16 forecasts a revenue resource limit of £23.3m which is an increase of £2.9m (14%) on 2014/15 (£20.4m). The increase is largely due to the establishment of the Death Certification Review Service which is and will continue to be run by HIS as well as additional resources relating to Quality Improvement. We have not identified any key indicators or been made aware of any factors that would suggest that HIS will struggle to meet its financial targets.
- The target for cash releasing efficiency savings for the financial year 2014/15 was £0.866m, of which £0.933m has been achieved from pay cost savings with an additional amount of £0.244m being found from within property cost savings. Thus total efficiency savings of £1.177m were achieved.

Action Plan

We can confirm that we did not identify any significant deficiencies in internal control as part of our audit procedures. We therefore have no recommendations we wish to make in respect of HIS and as such no Action Plan has been included within this report.

Additional insight – journals

A key focus in our audit is sharing insight. During our audit procedures, for testing manual journals, we have interrogated the data from which we performed our manual journals testing to identify observations for your consideration. These are included within Appendix 1.

Please note that copies of this report will be sent to the Audit Scotland in accordance with their requirements.

We thank the management and staff of HIS for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
Fraud and management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.	• We tested high risk manual journals and identified the business rationale for these transactions; • We examined management's accounting estimates for bias and performed detailed testing over deferred income, accruals and provisions; and • We performed unpredictability testing over a sample of immaterial agency spend in 2014/15 to ensure that agency workers had completed the work they were contracted to perform while also considering whether any of the agencies are considered related parties of HIS. Our work did not identify any errors that required adjustment to the financial statements.
Recognition of income Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that HIS could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position. Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS (please see below).	• We evaluated and tested the accounting policy for income recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FReM); • We reviewed intra NHS confirmations of balances and disputed amounts to consider the implications on our audit; • We performed substantive testing on a sample of transactions from each material category of revenue and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts; • We identified high risk manual journals posted to revenue accounts and identified the rationale for these transactions; and • We reviewed estimates for revenue, deferred revenue for example, to ensure that it was accounted for on an accurate basis and in the proper period. We did not identify any issues to report to you as a result of our work.

Matter arising	Audit response
Recognition of expenditure We extend the above presumption of risk of fraud in revenue recognition to the recognition of expenditure in the NHS. In the current economic climate, HIS is subject to significant efficiency savings targets.	• We evaluated and tested the accounting policy for expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FReM); • We reviewed intra NHS confirmations of balances and disputed amounts to consider the implications on our audit; • We performed substantive testing on a sample of transactions from each material category of expenditure and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts; • We identified high risk manual journals posted to expenditure accounts and identified the rationale for these transactions; and • We reviewed estimates for expenditure including accruals and provisions for example, to ensure that they were accounted for on an accurate basis and in the proper period. We did not identify any issues to report to you as a result of our work.

Materiality

We have conducted our work in accordance with the materiality levels detailed below. We have applied a revised de minimis level of £20,000, which is a negligible increase from the original de minimis based on draft financial results and which was agreed with the Audit Committee upon submission of our annual audit plan in March 2015 of £19,850.

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	400,040
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	300,030
De minimis posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a 'de-minimis' or 'clearly trifling' amount	20,000

Misstatements and significant audit adjustments

There are no uncorrected misstatements arising from our audit to report to you.

Qualitative aspects of accounting practices

Improving the quality of NHS annual report and accounts

In December 2014 Audit Scotland published the good practice note *'Improving the quality of NHS annual report and accounts'*. The overarching objective of the publication was to help all boards improve their accounts presentation. Audit Scotland identified the following main causes of poor presentation by NHS Boards as follows:

- Over-reliance on the template provided by the Scottish Government;
- Inclusion of irrelevant disclosures; and
- A lack of attention to detail in preparation of the accounts.

As part of our audit work we have discussed the good practice checklist within the publication with HIS and have no significant matters to bring to your attention.

Financial statement disclosures

We have also reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work.

Governance Statement

The Financial Reporting Manual requires Chief Executives to sign a Governance Statement which covers all controls including financial, operational, compliance and the management of risk. The Scottish Government Health and Social Care Directorate (SGHSCD) have issued *Guidance on Governance Statements 2014/15* to help Chief Executives prepare their Board's Governance Statements.

We reviewed the governance statement and considered the following:

- Compliance with the required elements of the proforma statement developed by Scottish Government Health and Social Care Directorate ("SGHSCD"); and
- Consistency with the remainder of information presented within the annual accounts and our overarching understanding of the entity.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Accounting matters

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

It is a requirement of International Accounting Standard 24 that transactions with related parties are identified and disclosed in the financial statements. In the context of HIS, related parties would include Directors and Senior Management and their close family members. Related party transactions are identified and declared by Directors and Senior Management and will either relate directly to that individual or will be an interest of that individual's close family member. Failure to capture this information may result in an incomplete listing of related parties being disclosed to the audit team and an incomplete listing of related party transactions being disclosed in the financial statements.

Traditionally, HIS has maintained a list of Directors and Senior Managements' interests which has been used as the basis for identifying the related parties listing. PwC have confirmed that this declaration does cover details in relation to the individual's close family members. The audit team was able to review responses from all Directors and Senior Management from whom we had requested details of their related parties as part of our audit procedures.

In addition, we performed audit procedures to confirm that related party declarations were complete and that the related party disclosure within the accounts was complete. During this testing we identified that a charity named "The Health Foundation" is a related party and as a result cash received from this charity during 2014/15 amounting to circa £486,000 in relation to the Scottish Patient Safety Programme, Pharmacy in Primary Care project and Safety Measurement and Monitoring programme should be disclosed within the Related Party Transactions note in the annual accounts. Management agreed with PwC's findings and the have updated the disclosures within the annual accounts accordingly.

We are satisfied that the related party listing provided by HIS to the audit team is complete and that the related party transaction disclosure within the financial statements is now complete.

CNORIS provision

The Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) has been in operation since 2000. Participation in the scheme is mandatory for all NHS Boards and Bodies in Scotland. The scheme allows for risk pooling of legal claims in relation to clinical negligence and other risks and works in a similar manner to an insurance scheme. CNORIS has an agreed threshold of £25,000 and any claims with a value less than this are met directly from within Boards'/Body's own budgets. Boards/Bodies contribute to the CNORIS pool each financial year at a pre-agreed contribution rate based on the risks associated with their individual organisation. If a claim is settled the Health Board/Body will be reimbursed by the scheme for the value of the settlement, less a £25k "excess" fee.

When a legal claim is made against an individual Health Board/Body, the organisation will assess whether a provision or contingent liability for that legal claim is required. If a provision is required then the health Board/Body will also create an associated receivable recognising reimbursement from the scheme if the legal claim settles.

In the current year, Scottish Government has advised that Health Boards/Bodies should also recognise that they will be required to make contributions to the scheme in future years. Therefore a second provision that recognises the Health Boards'/Body's share of the total CNORIS liability of NHS Scotland has been calculated by the Scottish Government and allocated to each Health Body/Board in order to be recognised within that individual Health Body/Board's annual accounts.

We note that in relation to the first CNORIS provision, HIS has not recognised any provision in relation to this as at 31 March 2015 (£nil as at 31 March 2014). This is consistent with our understanding of HIS's operations as HIS has never participated in the scheme. Scottish Government guidance issued to Healthcare Improvement Scotland during 2014/15 indicated that HIS was required to recognise a provision of £36,000 as at 31 March 2015 in relation to this secondary CNORIS provision. In addition a restatement of prior year balances was also required in order to disclose the secondary provision as at 31 March 2014 of £39,000 and as at 31 March 2013 of £37,000. We have reviewed the correspondence that HIS have received in relation to this provision from Scottish Government as well as the audit team having also confirmed directly with Scottish Government on the amounts to be disclosed within Healthcare Improvement Scotland's annual accounts.

We note that HIS has never previously had any reason to participate in the scheme therefore the recognition of the secondary provision appears prudent however as the amounts recognised and disclosed are immaterial and have been recommended by Scottish Government, no adjustment has been proposed in relation to the year end CNORIS provision.

Section 3. Financial performance

Financial targets

HIS's performance against its three financial targets for financial year 2014/15 is set out below:

Table 1: Financial targets summary 2014/15

	Limit as agreed by SGHSCD £ thousand	Actual Outturn £ thousand	Underspend/ (Overspend) £ thousand
Revenue Resource Limit (RRL)	20,395	20,002	393
Capital Resource Limit (CRL)	50	42	8
Cash Requirement	21,000	20,537	463

The underspend for the year 14/15 is £0.393m against the limit agreed by Scottish Government Health and Social Care Directorate (SGHSCD). HIS has an agreed variance threshold with SGHSCD of £0.200m and so the underspend is greater than the agreed threshold. HIS made various efforts throughout the year to identify savings throughout the organisation, for example examining the requirement to fill vacant positions, which resulted in the underspend outturn which was greater than original expectations.

HIS has agreed with SGHSCD to carry forward the underspend into the financial year 2015/16 to assist with the exercise of identifying efficiency savings in the longer term. The most significant expenditure area for HIS is staff costs and thus efficiency plans will target this expenditure category to achieve longer term recurring savings.

Efficiency savings

HIS has achieved £1,177k of efficiency savings in 2014/15 against a target of £866k per the NHS Scotland Efficient Government efficiency savings target. The sources through which HIS has achieved these efficiencies are set out below:

Table 4: Efficiency savings 2014/15

Source	Savings £ thousand	% of total
Pay costs	933	79%
Property costs	244	21%
Total reported	1,177	100%

HIS reported cash releasing efficiency savings for the financial year 14/15 of £1.177m of which £0.933m has come from pay costs with the balance being found from property costs savings.

HIS's efficiency target was £0.866m, thus achieving excess savings of £0.311m over their target. This excess was mainly achieved within HIS's pay costs, by identifying vacancies which did not require to be immediately filled.

Financial sustainability

In recent years NHS Boards in Scotland have faced significant challenges in delivering healthcare services amidst continued financial pressures. Audit Scotland's publication '*NHS in Scotland 2013/14*' recognises the difficulties caused by the focus on meeting annual targets and the extent to which this focus can hinder the longer term financial planning process. The overarching recommendation for NHS Boards is in relation to a strengthened approach to long term financial planning, considering in detail the resources required to implement service changes.

In light of this, financial sustainability has become a key matter for consideration by Boards and it is vital that consideration of longer term financial plans has taken place.

The Financial Plan for 2015/16 identifies the following key areas of expenditure:

Table 5: 2015/16 Financial Plan

Healthcare Improvement Scotland	**2015/16 Projected £'**
Recurring expenditure	20.511
Non-recurring expenditure	2.967
TOTAL PLANNED EXPENDITURE 2015/16	**23.478**

2015/16 and beyond

New role – Death Certification Review Service and Quality Improvement

HIS has been given new responsibility within the death certification and registration process through the establishment of a new Death Certification Review Service which is to be run by HIS. This officially commenced on 13 May 2015.

The role poses various challenges for HIS as it is a new service and thus ensuring appropriate sponsorship is obtained from the Scottish Government has an element of uncertainty at this stage as there is little evidence and experience to support the proposed budgetary spend for this new role. Reputational risks have also been identified given there are various third parties involved in the process whose actions affect the ability of HIS to effectively discharge their duties. Governance arrangements and contingency plans are in place to mitigate identified risks.

In addition to the above, from 2015/16 onwards, the Scottish Government has agreed a new investment of £2.5m to fund further developments in national quality improvement support. HIS has been developing proposals to use this resource as effectively as possible.

Savings forecasts and cost pressures

HIS has forecasted savings of £0.475m for both 2015/16 and 2016/17 in their local delivery plan. For 2015/16, this is made up of £0.244m recurring savings within the Estates and Facilities category and £0.231m non-recurring savings within the workforce category. For 2016/17, only £0.095m is considered recurring from Estates and Facilities with the rest of £0.380m being non-recurring within workforce.

Key cost pressures for HIS will be focussed on staff costs, as this makes up the significant majority of all spend (75% of total net operating costs) and thus the most likely source of identifying efficiency savings. As identified in HIS's savings forecasts, especially for 2016/17, there is a perceived reliance on non-recurring savings at this time. One key savings tactic would therefore be reducing staff costs to achieve recurring savings whilst maintaining service delivery. A complete workforce review is underway at HIS in order to identify these potential recurring savings opportunities, which includes a new voluntary redundancy scheme opened for the 2015/16 year. At this stage, four individuals have participated and have finalised agreements, with further interests being lodged and reviewed.

Financial planning and budgetary control

In order to support the balance between achieving targets in year and longer term financial planning it is vital that HIS have in place a sound system of financial planning and budgetary control.

The Director of Finance and Corporate Services prepares and submits to the Board financial plans for approval. These plans are continuously reviewed and discussed, along with the underlying budgets, with appropriate budget holders throughout the year. Budgets are delegated to officers who observe and monitor their budgets on a detailed level. Regular management accounts are prepared comparing actual outturn with budget and are reviewed by the Director of Finance and Corporate Services as well as the Board to identify and investigate significant variances.

Throughout the year, HIS identified actual adverse variances against budget and in the first half of the year were expecting a deficit against budget. However, the second half of the year resulted in various cost saving opportunities having been identified which led to a surplus outcome at year end of £0.393m above HIS's resource limits.

Section 4. Governance and internal control

Governance structure

We have assessed HIS's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. We have also considered key areas of risk to HIS including partnership working; service sustainability; performance management; and people management. Appropriate evidence of activity has been provided by HIS.

HIS reports on its Financial Performance on a monthly basis. This report is presented to:

- Audit and Risk Committee (constituted in June 2014 when the Finance and Performance Committee disbanded and its functions transferred to Audit and Risk);
- Quality Committee (constituted in January 2015 when the Evidence, Improvement and Scrutiny Committee disbanded and its functions transferred to the Quality Committee);
- Scottish Health Council;
- Staff Governance; and
  Executive Remuneration

The Code of Audit Practice requires us to review and report on HIS's Annual Governance Statement. HIS has used the appropriate format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of HIS's control framework have been highlighted.

On 14 April 2014, the Chief Executive position was taken on by Angiolina Foster, who replaced the interim Chief Executive John Glennie. There were no other significant changes to key management during the year.

We consider that the governance arrangements in place are appropriate.

System of internal control

The Chief Executive Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

We have no significant matters to bring to your attention in relation to the system of internal control.

Risk management

HIS has a Risk Management Strategy in place, which is monitored by the Audit Committee and the Board as part of their remits and reflects British Standards (BS ISO 31000:2009) Risk management – principles and guidelines. The Risk Management Strategy is supported by a new database for recording and managing risk called Compass, which has been implemented through the use of a Risk Management Working Group.

Reports on the management of risk are standing agenda items at meetings of the Board and its governance committees. Corporate and Operational Risk Registers are maintained and discussed at all levels of HIS, from individual project teams to the Executive Team. The registers are reviewed by the Audit Committee at each meeting.

Internal Audit

The role of internal audit is determined by management and therefore its objectives differ from ours. Part of our overall audit approach involves gaining an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2014/15, HIS continued to have an outsourced internal audit function provided by Scott Moncrieff. We have reviewed the internal audits performed during the financial year, which included reviews on HIS's Business Intelligence Strategy, Core Financial Systems and the implementation of the Death Certification. As in prior years, we have taken no reliance on the work performed by Scott Moncrieff. We have used the work of internal audit to gain an understanding of HIS as relevant for our external audit planning procedures.

Based on audit work performed we consider the internal audit function within HIS to be appropriate for the requirements of HIS.

Other matters

Compensation and Confidentiality Agreements

HIS had two individuals leave the entity through a voluntary redundancy agreement. Neither of these included confidentiality agreements.

Agency spend

HIS incurs a modest level of agency spend to ensure service delivery is maintained when short term resourcing gaps are identified. In the 14/15 year, £0.222m (13/14 – £0.201m) was spent on agency staff which is 1.2% (13/14 – 1.4%) of the total staff costs incurred on all workforce categories.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors and management are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

National Fraud Initiative (NFI)

HIS participates in the National Fraud Initiative (NFI). HIS has identified 132 matches for the 2014/15 year and management is currently in the process of investigating and uploading results on to the national NFI system. In accordance with our responsibilities as your appointed auditor, we are in the process of completing the NFI questionnaire and have the following observations at this stage:

- 126 of the 132 matches (95%) have been processed at this stage, with commentary included on the NFI website;
- 19 recommended matches were highlighted, all of which have been investigated and closed on the NFI website;
- 6 matches (5%) remain under investigation, with guidance from Audit Scotland stipulating the majority of matches should be closed by September 2015; and
- no frauds or overpayments have been identified through investigations made.

Prevention and detection of fraud and corruption

HIS have in place appropriate code of conducts (for both staff and the Board), anti-fraud procedures and a whistleblowing policy. The whistleblowing policy was last updated in April 2013 but was formally reviewed in April 2015. These policies and procedures relating to fraud outline the expectations of HIS in relation to staff and Board conduct, the procedures that dictate the responsibilities and roles if a fraud is identified as well as providing alternative routes for reporting any incidents. There were no instances of fraud identified and the whistleblowing policy had not been utilised during the 2014/15 year.

Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of HIS.

Section 6. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Independence conclusion

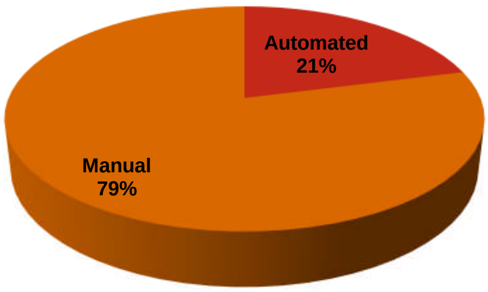
At the date of this report we confirm that in our professional judgement, we are independent accountants with respect to HIS, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1 – Journals insight

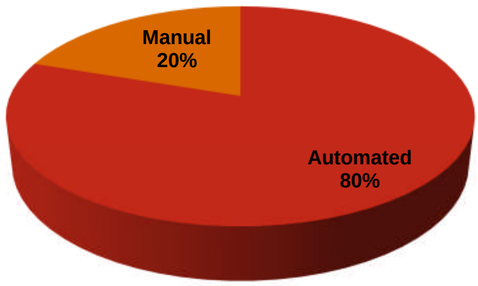
Summary Profile	Quantity	Value (GBP)
Total journals	**7,045**	**£139,393,806**
Total manual journals	**1,396**	**£110,122,833**
Average no. of lines per manual journal	28	

Automated vs Manual

Value

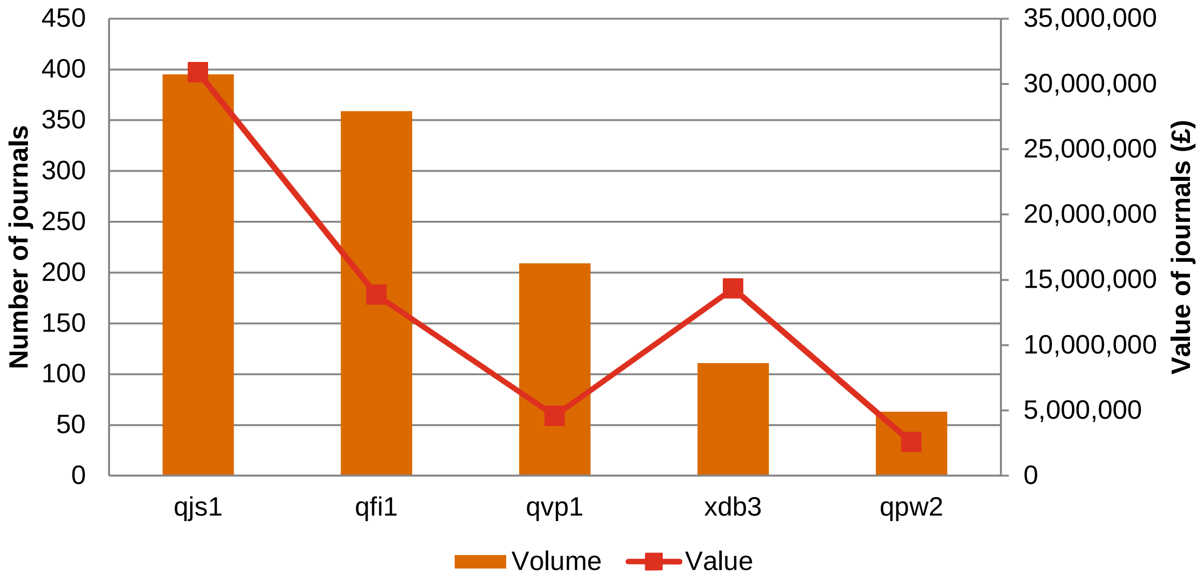


Volume



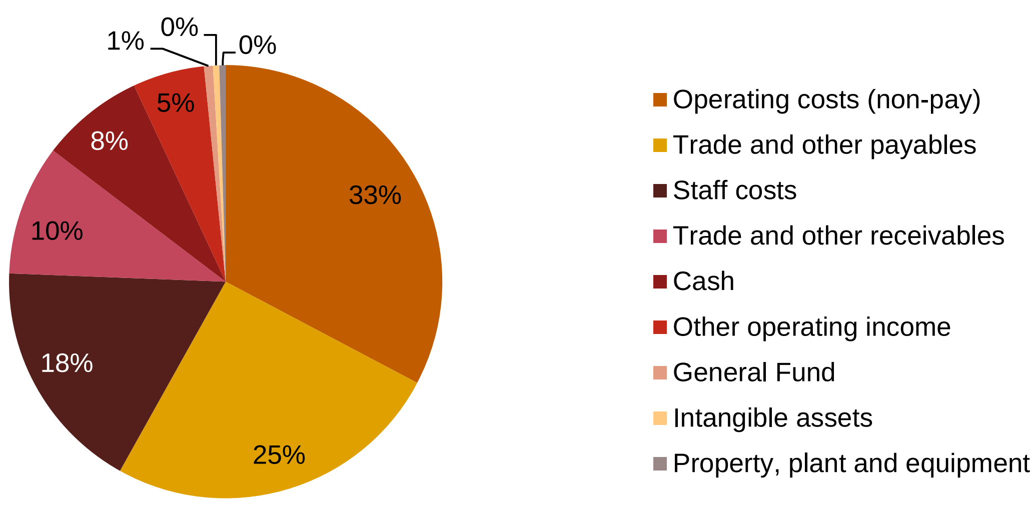
- ***Observation:** 80% of journals posted at Healthcare Improvement Scotland during 2014/15 were posted automatically, with the remaining 20% of journals being posted manually however we note that nearly 80% of all journal values were a result of the 20% of manual journals raised in the year. We ask management to consider whether this appears reasonable.*

Top 5 users posting manual journals



- ***Observation:* User "qjs1" posted the highest volume and value of journals in Healthcare Improvement Scotland. User "qjs1" posted circa 390 journals during 2014/15 amounting to approximately £31 million compared with user "qpw2" who posted circa 60 journals during 2014/15 amounting to approximately £3 million. We ask management to consider whether this appears to be reasonable.**

Volume of journals, by Financial Statement Line Item (FSLI)



- ***Observation:* The majority of journals posted (33%) are in relation to operating costs. We ask management to consider whether this appears reasonable.**