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# Introduction

## The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Audit Committee (“the Committee”) of NHS Ayrshire and Arran (“the Board”) for the year ending 31 March 2020 audit. We would like to draw your attention to the key messages of this plan:

### **Audit Plan**

We have updated our understanding of the Board including discussion with management and review of relevant documentation from across the Board. Based on these procedures, we have developed this plan in collaboration with the Board to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Board.

### **Key Risks**

We have taken an initial view as to the significant audit risks the Board faces. These are presented as a summary dashboard on page 11.

### **Audit Dimensions**

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Board’s key priorities in risks as well as any risks identified by Audit Scotland. The following specific risks have been identified:

**Financial sustainability** – There is a risk that the significant work required to make the level of transformational change needed is not progressing at the pace required. We will assess the progress being made in developing detailed programmes, incorporating the more medium-to longer-term initiatives.

**Financial management** – While we have not identified any specific risks in this area during our audit planning, we will continue to review the Board’s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

**Governance and transparency** – There is a risk that there is insufficient capacity of Board members to effectively scrutinise decisions taken at Board and other relevant committee meetings. We will assess the work done during the year through the non-Executive Directors’ annual appraisal process and the review of responsibilities and roles conducted by the Vice Chair and Head of Corporate Governance.

# Introduction (continued)

## The key messages in this report (continued):

### **Audit Dimensions (continued)**

**Value for money** – While we have not identified any specific risks in this area during our audit planning, we will continue to review the Board’s performance against the annual operating plan standards, the Board’s reporting and monitoring of these and the actions taken to improve the performance of the Board.

Our audit work on the four audit dimensions incorporates the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function. Should any further risks emerge during the year, we will provide an update to the Audit Committee.

### **Regulatory Change**

IFRS 16, Leases, will apply from 2020/21, and will require disclosure in the 2019/20 financial statements of the expected impact on transition.

We would suggest that the Audit Committee receive reporting in year from management on the implementation of the new standard. We will report specifically on the scope of our work this year, and recommendations for 2020/21.

### **Our Commitment to Quality**

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

### **Adding value**

Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 26 to 32 of this paper.

**Pat Kenny**  
**Audit director**

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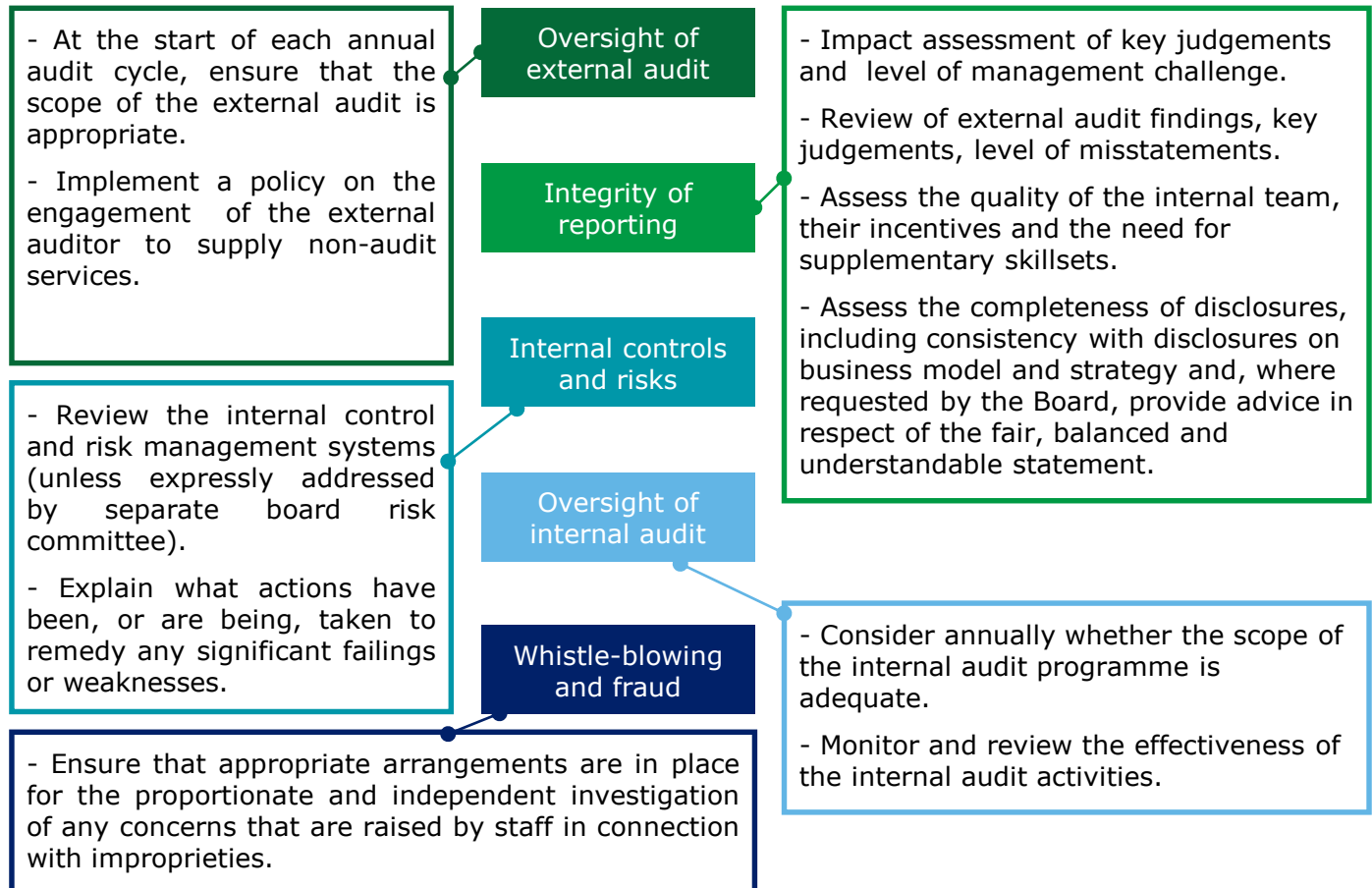
# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

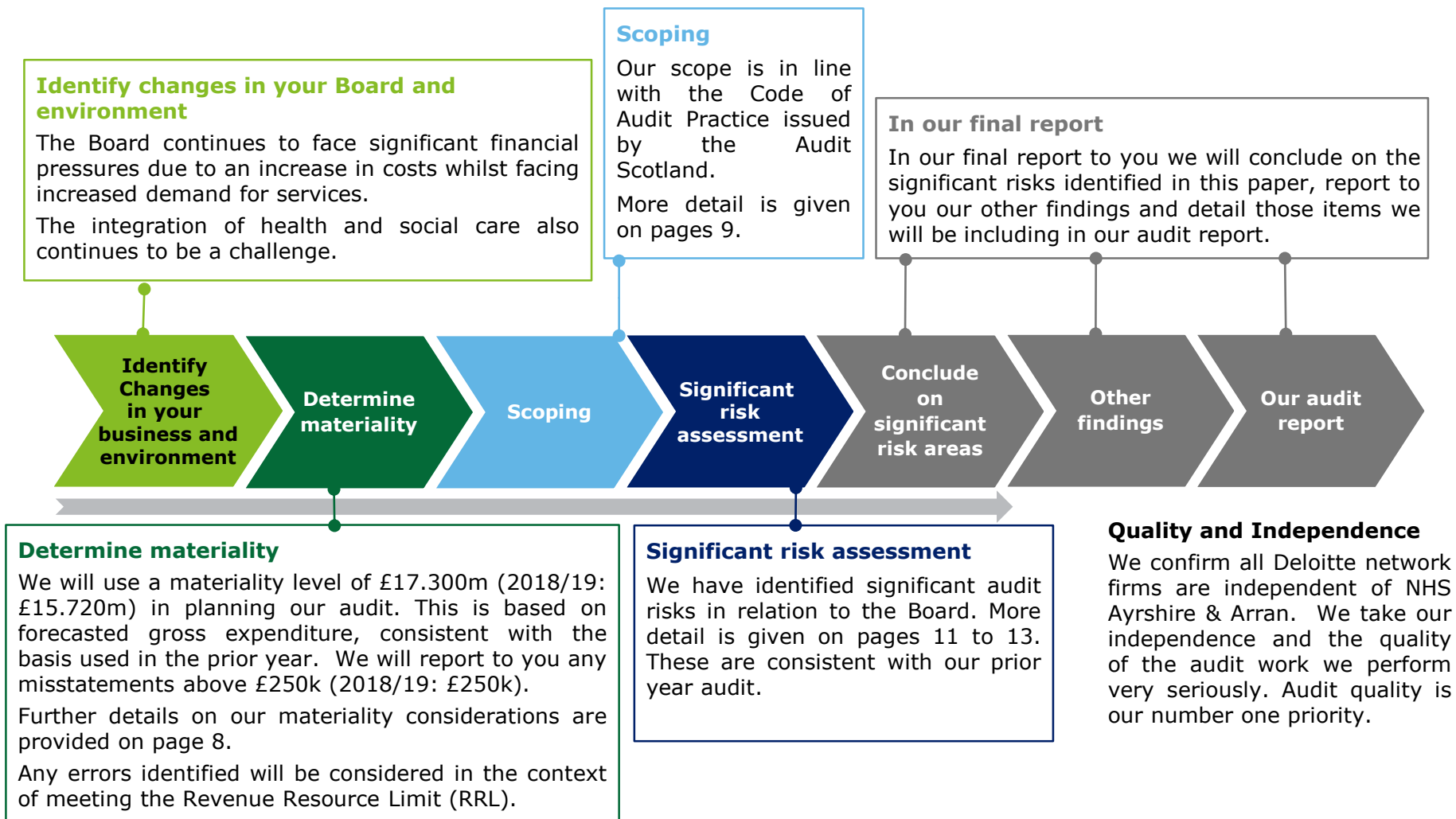


As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



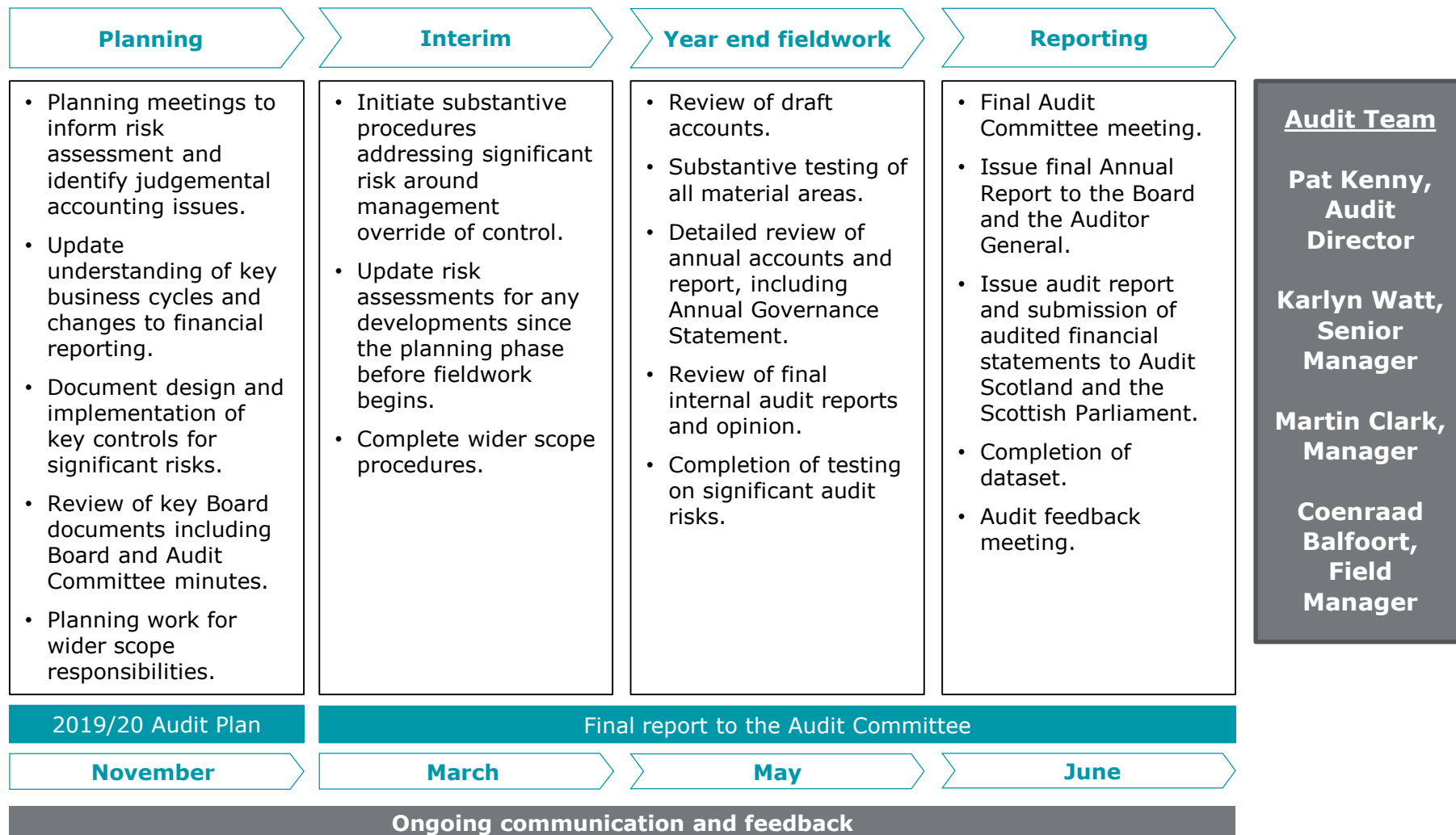
# Our audit explained

## We tailor our audit to your Board and your strategy



# Continuous communication and reporting

## Planned timing of the audit



# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

- The audit director has determined materiality for the group as £17.300m (2018/19: £15.720m) and performance materiality as £12.900m (2018/19: £11.790m) based on professional judgement and risk factors specific to NHS Ayrshire & Arran, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.8% of forecasted gross expenditure as the benchmark for determining materiality and applied 75% as performance materiality.
- This approach is consistent with our prior year materiality calculation.
- For the audit of NHS Ayrshire and Arran (Board only) a materiality of £16.400m (2018/19: £14.930m) has been determined, and performance materiality of £12.200m (2018/19: £11.120m).

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £250k (2018/19: £250k) for both the group and Board only.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

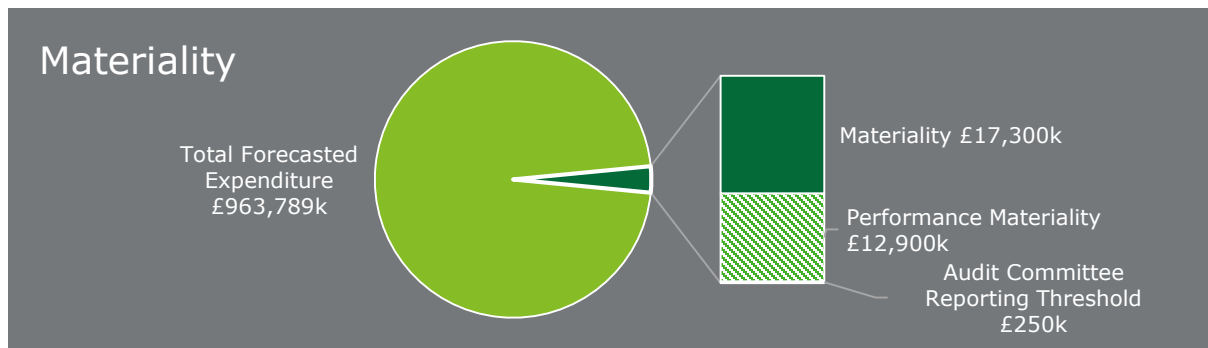
### Our annual audit report

We will:

- Report the group materiality, Board only materiality and the range we use for component materialities;
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- explain any normalised or adjusted benchmarks we use, if appropriate.

### Group scoping

The significant components for the group comprise NHS Ayrshire Arran and the three Integration Joint Boards (IJBs). Full audit procedures will be performed on each entity. The Endowment Fund is not significant, therefore will be covered by desktop reviews at the group level.



Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.





# Scope of work and approach

## Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	27 November 2019 30 June 2020
Consider and report on the audit dimensions	Annual audit plan Annual audit report	27 November 2019 30 June 2020
Contribute to performance audits (including overview reports, performance audit reports and impact reports)	Datasets Information returns	1 July 2020 As required
Share intelligence with health and social care national agencies	Intelligence return	As required
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020
Contribute to National Fraud Initiative (NFI) report	NFI audit questionnaire Reference, if necessary, in annual audit report	28 February 2020 30 June 2020

# Scope of work and approach (continued)

## Our approach

### Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Board's staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We have also designed and continually update International Financial Reporting Standards ("IFRS") disclosure checklists in conjunction with the requirements of the FReM to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Board complete during drafting.

We will continue to review an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management and the audit committee.

Audit Scotland has published good practice guides in relation the Annual Report and the Governance Statement to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Board consider during drafting.

### Statutory Other Information

In addition to the financial statements, we are required to consider whether the Performance Report and Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors' work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Obtain an understanding of the Board and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.

Carry out "design and implementation" work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

# Significant risks Dashboard



Risk	Material	Fraud risk	Planned approach to controls testing	Level of management judgement	Page no.
Operating within the expenditure resource limits			Design and implementation		12
Management override of controls			Design and implementation		13



Some degree of management judgement



Limited management judgement

# Significant risks (continued)

## Risk 1 – Operating within the expenditure resource limits

### Key focus for management

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**Risk identified**

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with the prior year, we do not consider this to be a significant risk for NHS Ayrshire and Arran as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that the Board could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

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**Our response**

We will evaluate the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area will include the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
  - obtain independent confirmation of the resource limits allocated to NHS Ayrshire & Arran by the Scottish Government;
  - perform focused testing of accruals and prepayments made at the year end; and
  - performing focused cut-off testing of invoices received and paid around the year end.
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# Significant risks (continued)

## Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

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### **Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. 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.

The key judgements in the financial statements are those which we have selected to be the significant audit risk around expenditure recognition. This is inherently the area in which management has the potential to use their judgement to influence the financial statements.

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### **Planned audit challenge**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

#### **Journal testing**

- We will test the design and implementation of controls over journal entry processing.
- Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

#### **Accounting estimates**

- We will test the design and implementation of controls over key accounting estimates and judgements.
- We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

#### **Significant and unusual transactions**

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

# Wider scope requirements

## Audit dimensions

The Code of Audit Practice sets our **four audit dimensions** which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Board’s key priorities in risks as well as any risks identified by Audit Scotland. We have set out below our identified audit risks in relation to the audit dimensions and proposed response. In addition, we will follow up the progress made in relation to our previous years’ recommendations.

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<p><b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>As reported in our 2018/19 annual audit report, the Board achieved short-term financial balance in 2018/19, however, this was only achieved due to the receipt of £20m brokerage from the Scottish Government. A deficit budget has been set for 2019/20 with the Board not expecting to achieve financial balance until 2021/22. This comes with significant risks. The Board recognise that significant transformational change is required and is progressing its Transformation Change Improvement Plan (TCIP).</p>	<p>There is a risk that the significant work required to make the level of transformational change needed is not progressing at the pace required.</p> <p>We will assess the progress being made in developing detailed programmes, incorporating the more medium-to longer-term initiatives.</p>
<p><b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>We concluded in 2018/19 that the Board has effective financial planning and management arrangements in place, with consistent reporting to the Board throughout the year.</p>	<p>While we have not identified any specific risks in this area during our audit planning, we will continue to review the Board’s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.</p>
	<p>In accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We will therefore consider the Board’s controls and processes as a matter of particular focus.</p>	<p>There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption. We will therefore evaluate the arrangements that the Board has in place to mitigate this risk.</p>

# Wider scope requirements (continued)

## Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>In 2018/19 we concluded that NHS Ayrshire and Arran has a good attitude to openness and transparency. It also has strong leadership. However, the workload of Board members is continually increasing, which brings with it additional risks.</p>	<p>There is a risk that there is insufficient capacity of Board members to effectively scrutinise decisions taken at Board and other relevant committee meetings.</p> <p>We will assess the work done during the year through the non-Executive Directors' annual appraisal process and the review of responsibilities and roles conducted by the Vice Chair and Head of Corporate Governance.</p>
	<p>In relation to the IJB, our 2018/19 audit highlighted that it was positive to note that the Board, along with its IJB and Council partners, were reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration.</p>	<p>The governance arrangements for health and social care integration are an area of particular interest to the Auditor General. There is an ongoing risk that the IJBs do not achieve the full benefits of integration.</p> <p>We will follow up the progress made in reviewing the governance arrangements and assess whether the bodies can demonstrate that the governance arrangements are appropriate and operating effectively.</p>
<p><b>Value for money</b> is concerned with using resources effectively and continually improving services.</p>	<p>In 2018/19 we concluded that the Board has a well established performance management framework in place to monitor performance against national standards. While work had progressed during 2018/19 to address areas of poor performance, the impact was not yet evident in the performance data, with the number of indicators below an acceptable standard increasing in 2018/19. There was evidence of the Board directing resources to address areas of poor performance.</p>	<p>While we have not identified any specific risks in this area during our audit planning, we will continue to review the Board's performance against the annual operating plan standards, the Board's reporting and monitoring of these and the actions taken to improve the performance of the Board.</p>

# Wider scope requirements (continued)

## Other requirements

### Sector overview/ Annual performance reports

As in previous years, the Auditor General will publish an annual performance report covering the health sector. The reports use information from the audited accounts and the Annual Audit Reports and therefore much of the required information is generally already available from the core audit work. However, we will be requested by Audit Scotland to provide important supplementary information collected as datasets. We will share these with management as soon as they are available.

### Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports. Audit Scotland plan to assess the impact of the report "Children and young people's mental health" during July/ August 2020.

### Sharing intelligence for health and social care

The Sharing Intelligence for Health and Care Group is a mechanism that enables seven national agencies to share and consider intelligence about the quality of health and social care systems across Scotland. More information is available from the [Scrutiny improvement](#) page on the Audit Scotland website. In summary, the aim of the group is to support improvement in the quality of health and social care. When any of the agencies has a potentially serious concern about a health and social care system, the group ensures this is shared and acted upon appropriately.

As the local auditor, we will be required to complete an intelligence return and attend the group meetings when NHS Ayrshire and Arran is considered. We will advise management when the timescales are confirmed.

### National Fraud Initiative (NFI)

All health boards, except for the Mental Welfare Commission, are participating in the NFI 2018/19. Audit Scotland expects bodies to investigate all recommended matches based on findings and the risk of error or fraud by 30 September 2019, with the results recorded on the NFI system.

We will be required to complete and submit a questionnaire by 28 February 2020. The information from this will be used in Audit Scotland's next NFI report due to be published in the summer of 2020.



# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

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### The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long-term viability).
- Deloitte fully supports an independent review into the role of auditors.
- The Government's Brydon Review will consider UK audit standards and how audits should evolve.

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### Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.

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### Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders.
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability and the high cost of tendering.
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.

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### Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts.
- We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest.
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).

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### Deloitte

- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

for and on behalf of Deloitte LLP

Glasgow

13 November 2019

# Appendices



# Prior year audit adjustments

## Uncorrected and disclosure misstatements

### Prior year uncorrected misstatements

	Debit/ (credit) SoCNE £m	Debit/ (credit) net assets £m	Debit/ (credit) reserves £m
<b>Misstatements</b>			
Provisions – participation in CNORIS	[1]	(0.355)	
Operating expenses – other operating expenses	[1]	0.355	
<b>Net impact of uncorrected misstatements</b>	<b>0.355</b>	<b>(0.355)</b>	

[1] Provision figures for the Board's participation in CNORIS are determined by Scottish Government's NHS Central Legal Office (CLO) for each NHS Board. Audit Scotland performs a review of this work conducted by the CLO on behalf of the auditor of each Board. Audit Scotland identified an error in relation to the recognition of Periodic Payment Order provisions across a number of Boards which impacted the clinical share of the total CNORIS provision recognised at each Board. Following advice received from Scottish Government, the Board has not adjusted for this error. It will be considered by Scottish Government as part of consolidation adjustments to Whole of Government Accounts, and will be considered at Board level for 2019/20.

### Prior year disclosure misstatements

There were no uncorrected disclosure misstatements identified during the course of our prior year audit.

# Fraud responsibilities and representations

## Responsibilities explained



### Your Responsibilities:

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.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in relation to operating within the expenditure resource limits and management override of controls as a key audit risk for your organisation.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter signed on behalf of the Board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

### **Internal audit and Local Counter Fraud Specialist**

- Whether internal audit and the Board's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.



# Independence and fees



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.

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## Fees

Fee range for the 2019/20 audit to be provided by Audit Scotland in early December 2019 will be discussed and agreed with management and the Audit Committee in early 2020.

There are no non-audit services fees proposed for the period.

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## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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## Relationships

We have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

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# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators (‘AQI’) which are monitored and reported to the firm’s executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR’s 2018/19 Audit Quality Inspection Report on Deloitte LLP

“We assessed 84% of the firm’s audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality.”

“We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics.”

#### “Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm’s audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities.”

#### “The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm’s global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor’s reports.”



# Sector developments



# Accounting standards

## IFRS 16 - Leases

### Background

The new standard is being implemented in 2020/21 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

For 2019/20, the Board will need to include disclosures on the expected impact of the standard, but not make any adjustments in the financial statements in respect of IFRS 16. However, many organisations have identified previously unidentified leases (or arrangements that contain a lease, such as service contracts) as part of their transition project, and so there may be some 2019/20 impact.

Separate to the financial reporting impact, but potentially more critical, budgets for 2020/21, particularly capital budgets, will need to reflect the impact of the new standard (and require submissions well ahead of year-end).

In the NHS context relatively small effects from standards can have a significant impact against performance metrics and targets, and so it is important to clearly understand the impact of the standards.

We have requested management's timetable for IFRS 16 work, and to understand the extent of testing required for 2019/20 disclosures.

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### Next steps

We recommend that the Audit Committee review the impact of IFRS 16 early in the year, including calculating any adjustments that will be required as at 31 March 2020 for transition. We would suggest that the Audit Committee receive reporting in year from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

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# Shaping the future of UK healthcare

## Closing the digital gap

### Background

Leveraging the opportunities and efficiencies offered by digital transformation is key for any organisation to remain viable and fit for the future. But for the UK's healthcare services, which are made up of multiple services and organisations, across a range of geographies and jurisdictions, the view is more complex than for most.

The latest report from our Centre for Health Solutions, examines the current challenges facing the healthcare system in realising the policy ambition of a digital first NHS, and some of the solutions to overcome them. We identify the key steps to accelerate digital transformation, what the main characteristics for successful digital programmes are, and what digital healthcare of the future may look like.

While a number of digital and technology systems and services are being delivered in some parts of the NHS, our research shows that technology adoption in many hospitals, primary care and community settings is slow with a gap in the digital maturity of providers.

Although most providers have some form of electronic health record platform, the functionalities vary widely. The next step for digital transformation is to be able to access, share and use health information seamlessly. For healthcare to realise this will require a radical shift in the culture and mind-set of healthcare stakeholders. It will also require a review of how digital transformation is funded.

The insights provided in this report are drawn from an extensive literature review; a comprehensive survey of 1,500 doctors, nurses and allied health professionals; structured interviews with 65 key stakeholders across the health ecosystem; and the experience of our colleagues across Deloitte who have worked with clients on digital transformation projects in the UK and other comparable countries.

### Next steps

The full report is available at <https://www2.deloitte.com/uk/en/pages/life-sciences-and-healthcare/articles/shaping-the-future-of-uk-healthcare.html>

# 2019 Global Health Care Outlook

## Shaping the future

### Background

With financial sustainability, care delivery, patient centricity, digital transformation and regulatory compliance at the top of the agenda, health care sector leaders need to collaborate with all stakeholders—both within the health care ecosystem and those in converging industries—as they look to shape the future of health care and establish a sustainable smart health community.

The adage, “What goes up, must come down,” isn’t likely to apply to the global health care sector in 2019. Ageing and growing populations, greater prevalence of chronic diseases, exponential advances in innovative, but costly, digital technologies—these and other developments continue to increase health care demand and expenditures. Health care stakeholders—providers, governments, payers, consumers and other companies/organisations—struggling to manage clinical, operational and financial challenges envision a future in which new business and care delivery models, aided by digital technologies, may help to solve today’s problems and to build a sustainable foundation for affordable, accessible, high-quality health care. This vision may have a greater probability of becoming a reality if all stakeholders actively participate in shaping the future— by way of shifting focus away from a system of sick care in which we treat patients after they fall ill, to one of health care which supports well-being, prevention and early intervention.

This 2019 outlook reviews the current state of the global health care sector and explores trends and issues impacting health care providers, governments, payers, patients, and other stakeholders. It also outlines suggestions for them as they seek to redefine the health care ecosystem and looks at examples from the market.

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### Next steps

The full report is available at <https://www2.deloitte.com/global/en/pages/life-sciences-and-healthcare/articles/global-health-care-sector-outlook.html?id=gx:2em:3int:4HCoutlook2019:5awa:6lshc:20190110>

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# Audit Scotland NHS in Scotland 2019

## NHS is 'running hot' and needs to refocus priorities

### Background

Audit Scotland published its "NHS in Scotland 2019" report in October 2019. Its overall conclusion is that Scotland's NHS needs to refocus its priorities to speed up health and social care integration and system wide reform.

The health service continues to face growing pressure from a population that is living longer. More people were seen and treated on time in the last year and patient safety improved. But just two out of eight key waiting time standards were met as staff struggled to meet rising demand for care.

Achieving financial sustainability also remains a major challenge for health boards. Half of all NHS savings were non-recurring, while predicted deficits and reliance on additional financial support from government have increased. The capital budget has also reduced by 63 per cent over the last decade and there is a near £1 billion of backlog maintenance and issues around high-profile capital builds.

The Scottish Government has taken positive steps to help health boards address their financial challenges and improve access to care. These include a shift from short to medium-term financial planning, a waiting times improvement plan and a project to develop NHS leaders. But it is too early to see the impact of these changes, and health and social care integration remains too slow.

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### Next steps

The full report is available at <https://www.audit-scotland.gov.uk/report/nhs-in-scotland-2019>

The report makes a number of recommendations for the Scottish Government, NHS Boards and Integration Authorities to take forward. We therefore encourage the Board to review these and ensure that the relevant issues are being addressed.

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# State of the State

## The view from citizens, leaders and the frontline of public services

### Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity. In addition, it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



### The State of the State 2019-20

The view from citizens, leaders and the frontline of public services

### Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/uk/thestateofthestate>

# State of the State (continued)

## The view from citizens, leaders and the frontline of public services (continued)

### Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.
- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.
- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.
- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.
- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

# What does climate change mean for business?

## New website – learning, interviews and resources

### Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

### The time to act is now!

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### What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

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### Next steps

Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals at [www.deloitte.co.uk/climatechange](http://www.deloitte.co.uk/climatechange)





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