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Healthcare Improvement Scotland

Report to the Audit and Risk Committee, the Board and the Auditor General for Scotland on the 2019/20 audit

Issued on 29 May for the meeting on 17 June 2020

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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.

I have pleasure in presenting our final report to the Audit and Risk Committee ('the Committee') of Healthcare Improvement Scotland ('HIS') for the 2019/20 audit.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by HIS in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

The scope of our audit was set out within our planning report presented to the Audit and Risk Committee in March 2020.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:
    - The appropriateness of the disclosures in **the governance statement**; and
    - The **financial sustainability** of HIS and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

Following adjustments made in relation to issues identified through the course of our audit, we are satisfied that the Performance Report and Annual Governance Statement are compliant with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of HIS.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 10.

We have identified two misstatements in excess of our £34,000 reporting threshold, as documented on page 30. We have identified three disclosure deficiencies including the disclosure of key judgements and estimation uncertainty, expenditure split within note 3, and headcount in the remuneration report (pages 31 – 32).

Conclusions on audit dimensions

As set out on page 3, our audit work covered the wider scope requirements of public sector audit.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant, we have not considered the full impact of COVID-19 on HIS at this stage.

Governance statement - The disclosures are appropriate and address the current requirements of the Scottish Public Finance Manual.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – We are pleased to note that across the areas we considered, improvements have been made in every area since 2018/19. Further improvement is still needed in key areas such as the achievement of recurring savings, medium-term financial planning and demonstrating a focus on outcomes.

The Board achieved short-term financial balance in 2019/20. A balanced budget has been set for 2020/21 which identifies £2m of required savings. However, this does not incorporate any consideration for COVID-19.

Our detailed findings and conclusions are included on pages 21 to 24 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 33 to 36 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focussing on the impact of COVID-19. We have provided a summary of those most relevant to HIS as part of our Sector Developments on page 27 – 28 of this report.

Added value

Our aim is to add value to HIS by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help HIS promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular from our work, we have made recommendations in relation to improving controls and have continued to work closely with management to drive improvement in the preparation of the annual report and accounts, which is a key publication for the organisation. This year, we have focused our attention on how HIS discloses its key performance indicators and key judgemental disclosures in the financial statements.

In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. Further, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which is open to anyone to join.

Pat Kenny
Audit Director

Financial statements audit

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements	!	The documentation of the dilapidations judgements made and sufficient evidence supporting those judgements in arriving at the provision was unavailable until a late stage in the audit, with substantial time spent advising on the information which needed to be obtained.
Adherence to deliverables timetable	!	A significant slippage was noted in relation to the Annual Accounts. We received these on 19 May 2020, two days prior to the close meeting and nine days prior to papers being issued for the Audit Workshop. While we accept that COVID-19 had an impact, the late provision of the draft Annual Accounts is a recurring issue identified in previous audits also.
Access to finance team and other key personnel	Mature	Deloitte and HIS have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers	!	On the whole documentation provided has been of a good standard. However, we encountered some issues with the listings provided for accruals which meant that additional time spent sampling multiple times. In a number of instances, the listings provided did not match with disclosures in the financial statements, resulting in additional work and disclosure deficiencies being identified as set out on pages 31 – 32. Management need to better document their judgements and considerations in relation to key items in the financial statements or areas which are subjective in nature. This should be done as a matter of habit and good practice, as opposed to only specifically on areas as and when requested by audit.
Quality and timing of Audit and Risk Committee papers	Mature	The deadlines for the Audit Workshop and Audit and Risk Committee while tight have been met. Management have confirmed their intention to extend the 2020/21 timetable by a week, and we believe this will work well. We will work with management on the sequencing of deliverables in light of this to improve the annual report and audit process.

! Lagging ! Developing Mature

Quality indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading	Reason
Quality of draft financial statements	!	We noted improvements in line with good practice throughout the Annual Accounts for which we commend management. However, the draft Annual Accounts remained non-compliant with reporting requirements in a number of instances which were highlighted in 2018/19 also.
Response to control deficiencies identified	!	The majority of our findings have been implemented from the prior year. Control deficiencies have been disclosed on page 17 and management have appropriate plans in place to address these. We have raised a control deficiency related to management review in both 2018/19 and 2019/20. However, we accept management's explanation that the response to COVID-19 and change to remote working has been a significant factor in this in the current year.
Volume and magnitude of identified errors	!	We have not identified any significant financial adjustments other than the dilapidations adjustment. We have identified three adjustments and three disclosure deficiencies, most of which could have been rectified by a more detailed management review, as set out on pages 30 – 32.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your organisation and environment

In our planning report we identified the key changes in your organisation and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £709k based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to materiality of £684k, performance materiality of £581k and report to you in this paper all misstatements above £34k.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report on pages 10 – 14.

Conclude on significant risk areas

We draw to the Audit and Risk Committee's attention our conclusions on the significant audit risks. In particular the Audit and Risk Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Achievement of expenditure resource limits	✓	✓	D+I	Satisfactory	●	Satisfactory	11
Management override of controls	✓	✓	D+I	Satisfactory	●	Satisfactory	12

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified
There is a key financial duty for HIS to comply with the Revenue Resource Limit set by the Scottish Government Health and Social Care Directorate (SGHSCD).

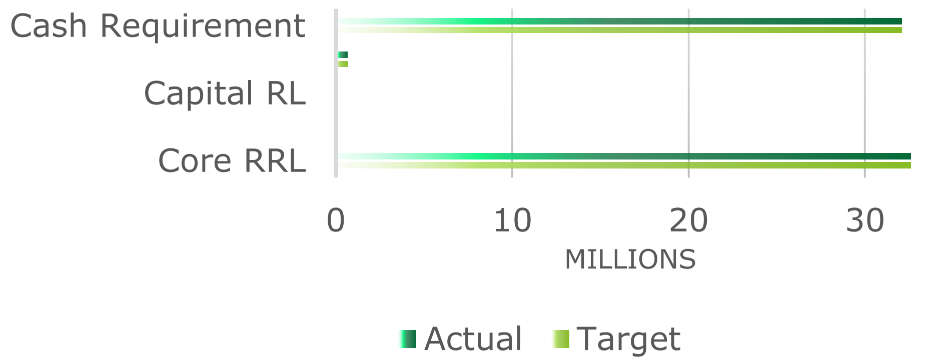
There is a risk that HIS could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position or reduce any level of brokerage required. The significant risk is therefore pinpointed to the completeness and existence of 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.

Key judgements and our challenge of them

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 the year end.

Deloitte response
We have evaluated 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 included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to HIS by the Scottish Government;
- Performing 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.



Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers. We have not identified any audit adjustments or disclosure deficiencies in relation to the achievement of expenditure resource limits.

We confirm that HIS has performed within the limits set by SGHSCD and therefore is in compliance with the financial targets in the year.

A classification error of £371k between accruals and payables was identified through our work, as set out on page 30. The net effect of this error is £nil and there is no impact on the achievement of expenditure resource limits, with accruals reduced by £371k and payables increased by £371k to correct the error.

Significant risks (continued)

Risk 2 - Management override of controls

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 HIS' controls for specific transactions.

The key judgements in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. In addition to this, the recognition of provisions and recognition of independent clinic income are other key judgements areas for management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. Our challenge is discussed on pages 13 and 14.

Deloitte response

We have considered the judgements made in preparation of the financial statements and the impact these judgements could have on the financial results, and note that:

- HIS' results throughout the year were projecting breakeven and underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval, with no issues noted.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates and judgements

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud – we have included a summary on pages 13 and 14.

We note that overall the changes to estimates in the period did not indicate a bias to achieve a particular result, although the dilapidations provision did fail to take into account all information which management had or could reasonably be expected to have had.

We tested accounting estimates and judgements (including accruals, deferred income, provisions and any other one-off accruals), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

We have identified an adjustment of £309k to the dilapidations provision, increasing this from £868k to £1,177k. This will increase expenditure by the same amount, although we understand the Scottish Government have agreed to increase HIS' annually managed expenditure limit by the corresponding amount. The adjustment therefore does not impact on HIS' achievement of expenditure resource limits.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

We have identified a significant adjustment of £309k to the dilapidations provision to better reflect the best estimate of the provision, taking into account all evidence which management has or could reasonably be expected to obtain.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements	The key judgements in the financial statements are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits. In addition to this, the recognition of provisions and recognition of independent clinic income are other key judgements areas for management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. HIS provide for all claims notified by the NHS Central Legal Office, according to the value of the claim. There are no claims specific to HIS included in the provision. HIS also provides for its liability from participating in the scheme. This provision recognises HIS' respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the Central Legal Office.	The provision is valued by the Central Legal Office based on the information on claims and historical experience. The value of claims is notified to HIS by the Central Legal Office. In 2019/20, this amount is £nil as there are no specific claims against HIS outstanding. The other element of the provision – contribution to the national pool - is immaterial. It is advised by the Scottish Government and we receive assurance from Audit Scotland on the approach to this.
Accruals	Accruals relating to HIS operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.	We have assessed this estimate through the performance of detailed testing, sample testing accruals as a significant risk, with further sample testing on potential unrecorded liabilities performed at a significant risk level to assess the completeness of the amount recorded. Based on the procedures performed, we are satisfied that the amount recorded is reasonable.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements

The key judgements in the financial statements are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits. In addition to this, the recognition of provisions and recognition of independent clinic income are other key judgements areas for management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Dilapidations provision	HIS provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A dilapidations provision of £868k has been made in respect of a leased property in Glasgow.	This provision is material and relates to HIS offices in Glasgow (Delta House). The lease expires in 2021 and thereafter the offices must be refurbished to the original standard as at the commencement of the lease. The provision has increased significantly in the year (by £918k, or 354%.) Given the level of increase in provision further work was undertaken to assess whether there was evidence of conditions existing at 31 March 2019 which would require a prior period adjustment. A Deloitte technical review was undertaken on whether a prior period adjustment was required which determined that the increase should be treated as a change in estimate meaning no prior period adjustment is required. In addition, we have reviewed the 2019/20 provision, including management's judgements and valuation the outcome of this was that an adjustment of £309k was required. Management's initial estimate did not take into account some known factors, adjust independent reports for HIS-specific conditions, properly weight differences in expert opinion or obtain additional information which they reasonably could have been expected to obtain in order to determine the best estimate of the provision.
Deferred income	HIS defer continuation fees in relation to independent healthcare income for the period over which the fee relates. For registration fees, income is deferred 100% until assigned to an inspector, 50% when assigned to an inspector, and 0% when fully registered. Continuation fees are deferred over the period to which they relate.	We have considered the policy adopted by HIS in relation to registration fees and confirmed this is in line with Scottish Government expectations and is reasonable. The approach adopted for continuation fees is standard practice. We have identified a control deficiency in relation to management review, as set out on page 17. We have performed sample testing of deferred income at a higher risk level.

Other area of audit focus
Independent clinics

Risk identified	In previous years, we identified a significant risk in relation to income from independent healthcare as it was a new source of income and there was a risk in relation to the recognition and deferral of that income. Now that the process for recording this income is bedded in, with no issues arising from our 2018/19 audit, we have downgraded this to a normal risk. There is a requirement for the regulation of independent healthcare to be a "full cost recovery" model, with the income and expenditure ring-fenced within HIS accounts. We have therefore identified a risk around the allocation and matching of expenditure against the income. This has not been identified as a significant risk, however it remains a key area of audit focus.
Our response	Our work in this area included the following: • We sample tested expenditure to assess the accuracy of the expenditure allocated; and • We assessed the transparency of the ring-fenced element within the annual report and accounts.
Deloitte View	We have not identified any issues with the allocation of expenditure against independent healthcare income through our substantive testing of the independent healthcare balance. The transparency of reporting has been assessed, and we are satisfied that independent healthcare is clearly communicated to the users of the accounts within the Performance Report. In our planning paper, we stated our planned procedures included completing a specific assessment of management's controls around the allocation of expenditure against independent healthcare income. This has not been considered necessary given the risk associated with the balance, the outcome of our work on management's controls around general expenditure, and the outcome of our substantive sample testing. However, we do note that in 2019/20, the ring-fenced independent healthcare fund was in deficit. Given there is an expectation that this service will be self-funded, HIS will in the longer term need to review the financial sustainability of the model adopted.

Coronavirus (COVID-19) outbreak
Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS is most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon reporting and audit processes, and present new issues and judgements that management and the Audit and Risk Committee needs to consider. The Technical Accounting Group has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on the annual report and accounts

HIS needs to consider the impact of the outbreak on the annual report and accounts, including:

- Principal risk disclosures
- Change in the funding regime for 20/21
- Impairment of non-current assets
- Allowance for expected credit losses
- Fair value measurements based on unobservable inputs
- Going concern
- Events after the end of the reporting period

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are working remotely with some challenges in efficiency due to communication and deliverables.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- The timetable of the audit has been shorter given the delay in receiving a first draft of the annual report and accounts.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with management, we will continue to consider any developments for potential impact up to the finalisation of our work in June 2020.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information. We accept that the impact of COVID-19 and the move to remote working is relevant context for considering the cause and impact of these deficiencies.

Area	Observation	Priority
Cash	During the audit, it was identified that the member of staff within HIS who had access to the RBS drawdown account had left. No new signatory had been appointed within HIS. We were able to verify the account via a member of staff within NSS and therefore had sufficient and appropriate audit evidence. However, we would recommend that whenever a member of staff leaves their account access is reviewed to ensure continuity of access is maintained and that no former employees retain access to bank accounts. Without this HIS leaves itself at risk of being unable to access accounts or of former employees accessing the accounts. We have made a corresponding recommendation for improvement on page 33.	Medium
Payroll	During the audit, it was discovered that the payroll report double counts some staff members and these have to be manually extracted when calculating the headcount. We have confirmed this does not result in double payment of staff. This should be investigated and rectified if possible given that this resulted in the incorrect disclosure being included within the initial draft of the annual report. We have made a corresponding recommendation for improvement on page 34.	Low
Management review	During the audit, there were a number of areas where issues have been identified that could have been prevented by a more in-depth management review. Examples include: Payment policy information; expenditure split disclosures, calculation of deferred income, and remuneration and staff report disclosures. An additional in-depth review would have highlighted errors of this nature improving the efficiency of the audit for both Deloitte and management with reduced comments and corrections. A similar finding on the level of review carried out by management was made in our 2018/19 report. We have made a corresponding recommendation for improvement on page 34.	Medium

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Based on our work completed to date, it is anticipated that our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The annual report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

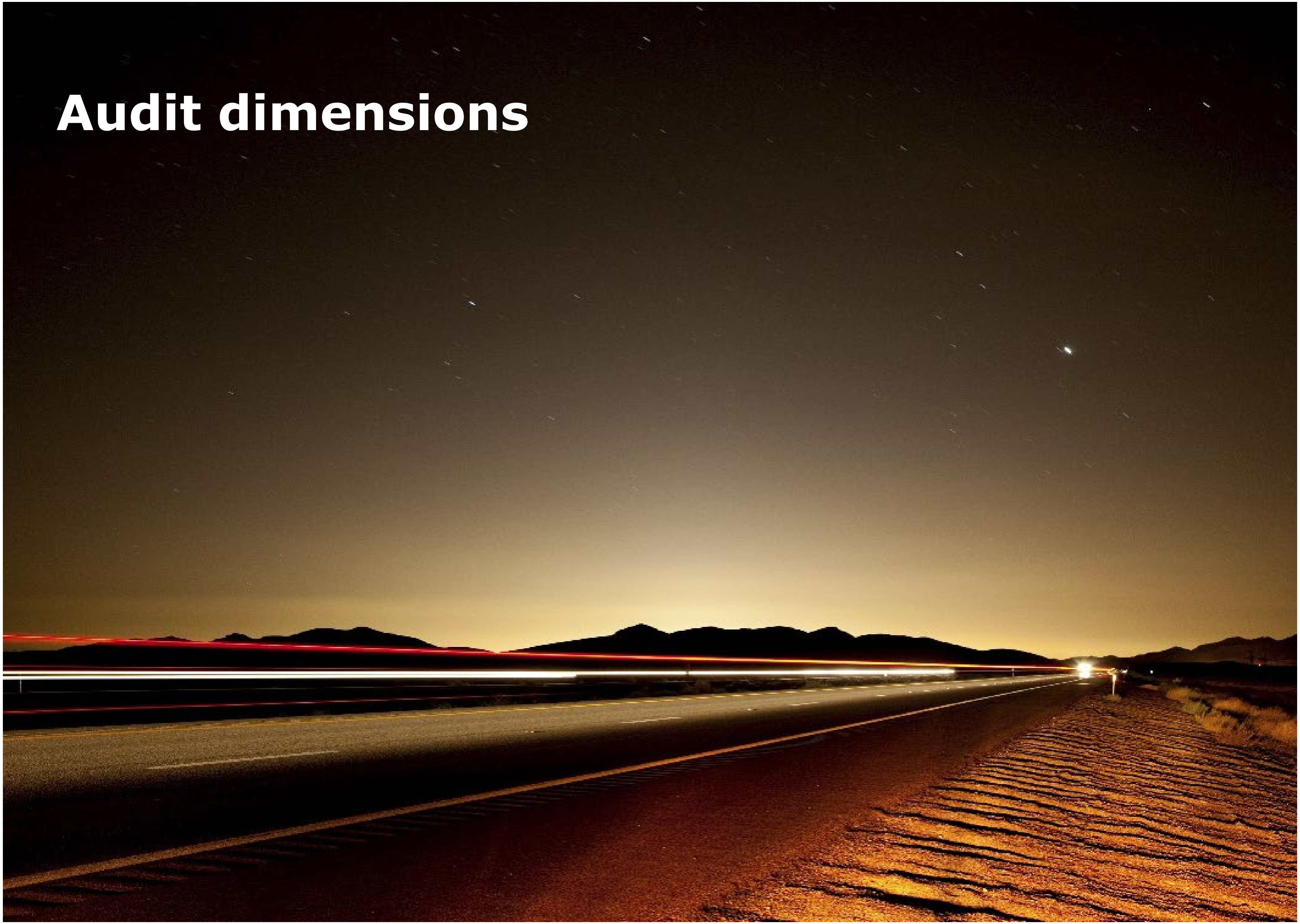
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 19.

Your annual report

We are required to provide an opinion on the auditable parts of the Remuneration and Staff Report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts and our knowledge obtained during the course of the audit.

	Requirement	Deloitte response
The Performance Report	The report outlines HIS' performance, both financial and non-financial. It also sets out the key risks and uncertainty facing the organisation.	We have assessed whether the performance report has been prepared in accordance with the accounts direction. We have identified three issues, similar to those identified in 2018/19, for example in relation to HIS failing to disclose key performance indicators, which impacts on the assessment of whether the annual report is fair, balanced and understandable. These have been corrected following our review. We have also read the Performance Report and confirmed that – following a number of changes to correct inconsistent information such as staff numbers disclosed in the Performance Report, Remuneration Report and financial statements and dates of office of Board members – the information contained within is now materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the Government Financial Reporting Manual, comprising the Governance Statement, Remuneration and Staff Report and the Parliamentary Accountability Report.	We have assessed whether the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the Accounts Direction. No exceptions have been noted. We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the Accounts Direction. An inconsistency was identified in relation to staff numbers, set out further on page 31. In addition, an area of non-compliance was identified in relation to disclosing non-financial information such as diversity and equal treatment, health and safety and human capital management. These have now been corrected by management. We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that the 2020/21 Annual Operating Plan was approved by HIS on 25 March 2020 and included draft budgets for 2020/21, 2021/22 and 2022/23. HIS has forecast a breakeven position over the three year period. We have concluded that the plan is sufficiently robust to demonstrate that HIS will be a going concern for at least 12 months from signing the accounts. We have requested that management specifically disclose their considerations in relation to the impact of COVID-19 on the ability of HIS to operate as a going concern in the going concern disclosure in the financial statements. Management have now included this additional disclosure. HIS have reported an above 1% surplus due to activities in March being impacted by COVID-19 and negotiations are underway with the Scottish Government to retain the element above 1%. We have highlighted this should be disclosed as a contingent liability (page 32).

Audit dimensions



Audit dimensions

Overview

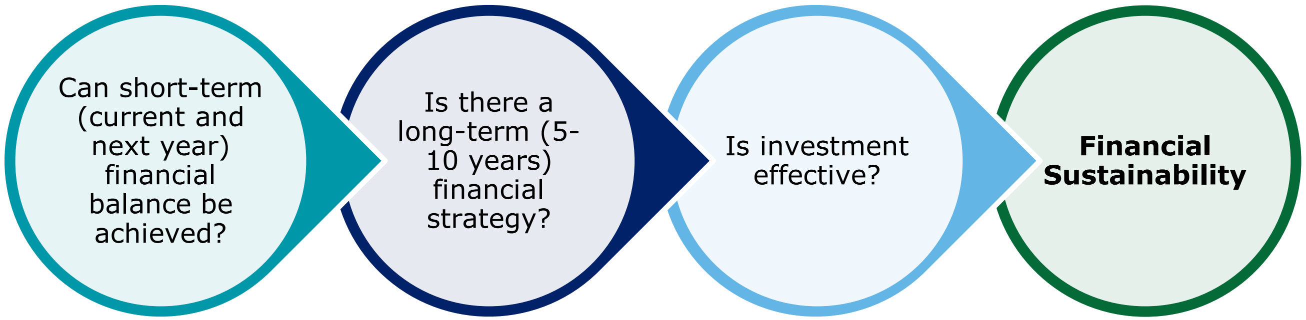
Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 19); and
- The **financial sustainability** of HIS and the services that it delivers over the medium to longer term.

Financial sustainability

Financial sustainability 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.



Our approach to the audit dimensions is risk-focused. We have provided an update for HIS on all areas considered in the prior year audit report to monitor improvement. The risks identified in our planning paper for 2019/20 were as follows:

- That the governance statement is not consistent with the wider direction of the accounts or compliant with the Scottish Public Finance Manual.
- That the organisation is not able to achieve financial balance in the medium term.

Audit dimensions (continued)

Financial sustainability

Short-term financial balance

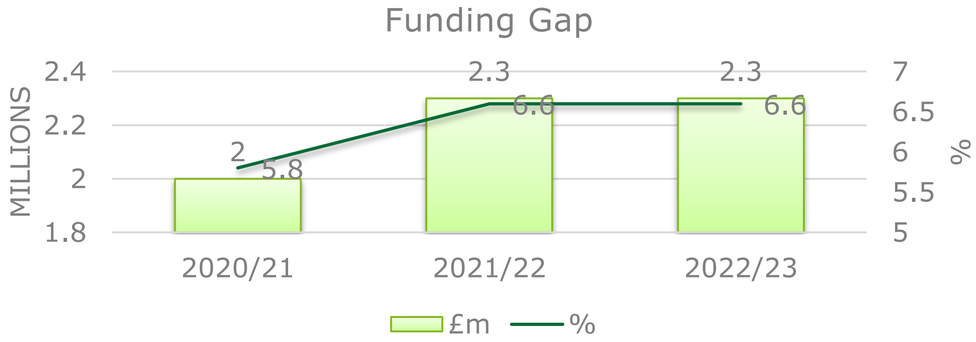
2018/19 Conclusion: Savings of £2.567m achieved against a budgeted £1.988m (129% of target), although only £0.555m (22%) were recurring. The budget did not identify the savings to be achieved. An initial cost gap of £0.458m was noted in the 2019/20 budget, with recurring savings identified to close this gap.

2019/20 Update: In the revised 2019/20 budget, the Board approved a cost gap of £1.410m on the assumption that this gap would be closed through in-year savings. In the event, a total of £1.731m of savings were achieved (123% of target). However, it should be noted that £0.339m (19.5%) of the savings achieved were recurring. In comparison per Audit Scotland's 'NHS in Scotland 2019' report on average 50% of all savings were recurring. In 2019/20, it was again the case that the budget was approved despite savings not being identified.

The Board approved a balanced budget of £34.493m for 2020/21 on 25 March 2020. This incorporated £1.5m of identified savings to be made and only £0.5m of unidentified savings, a significant improvement on the prior year. Key areas of targeted budget savings are as follows: Workforce costs (c.£1.3m); procurement (c.£0.25m), and currently unidentified savings (c.£0.458m).

All NHS boards are now required to breakeven over a three year period rather than annually. However, we note that HIS has budgeted for a breakeven position annually.

In setting its budget, HIS has recognised a number of risks including: Pay settlement being funded at lower than existing levels; independent healthcare not breaking even due to complexities in the market, and capital funding not forthcoming for new lease arrangements. We consider these to be reasonable assumptions. The key areas of focus for the Board in the short to medium-term are the reduction of workforce through natural turnover, given the cost pressures noted.



2019/20 Conclusion: The proportion of savings achieved against budget has remained similar, although the level of recurring savings achieved has declined significantly. We recognise the improvement in the budget set for 2020/21 in identifying savings where possible and are satisfied, as with last year, that HIS can achieve short-term financial balance in 2020/21. However, the impact of COVID-19 remains a significant risk which could impact on HIS achieving short-term financial balance.

Medium-term financial planning

2018/19 Conclusion: HIS achieved a breakeven position and forecasted to do so in 2019/20. The medium-term plan covers only a three year period to 2021/22 and the cost gap increases from 1.3% to 7.6% in that period, with insufficient plans currently in place to address this gap. Consequently, it was not possible to conclude that HIS was in a financially sustainable position.

2019/20 Update: HIS has achieved a break-even position in 2019/20 and is forecasting to do so for 2020/21. As with last year, it's medium-term plan only covers the three-year period to 2022/23. We note that the plan identifies a cost gap which increases from 4.1% to 6.6% in that timeframe, slightly less than forecast last year. However, it remains the case that there are insufficient plans currently in place to address this gap. Given these issues, it remains the case that we cannot conclude that HIS is in a financially sustainable position. We do, however, obtain some assurance from the over-performance against budgeted savings targets in previous financial years (2017/18 and 2018/19.)

2019/20 Conclusion: There has been a minor improvement in the medium-term position of HIS, as the forecast cost gap has dropped from 7.6% by 2021/22 to 6.6% by 2022/23. However, we again highlight the need for longer-term financial planning, including the anticipated savings from transformational change. Given the risks associated with COVID-19, these will need to be taken into account in updated medium-term plans.

The funds allocated to the improvement board in 2019/20 were not utilised to deliver change projects. In 2020/21 additional funds have been allocated and given the importance of transformational change to the financial sustainability of HIS, it needs to ensure this funding is utilised effectively to drive change and improvement.

Audit dimensions (continued)

Financial sustainability (continued)

Workforce Planning

2018/19 Conclusion: In 2018/19, we concluded that HIS has a detailed workforce plan which is updated annually and linked to the five-year strategy and annual operational plan. Workforce planning is appropriately regarded by HIS as an ongoing process. We noted that although the workforce plan is of a high quality, improvements can be made, particularly in relation to projecting the medium to longer-term workforce against estimated changes in demand and remit and costing the changes in workforce required

2019/20 Update: As part of our 2019/20 audit work, we have noted that progress has been made in projecting short-term workforce requirements. We are also aware that a workforce review is planned for 2020/21.

2019/20 Conclusion: We are pleased to note that HIS continues to improve its approach to workforce planning. We will assess whether the 2020/21 review addresses our recommendations on improving medium to longer-term planning.

Focus on Outcomes

2018/19 Conclusion: The outcomes and objectives set out in the operational plan would be improved by including a clear link against each to one of the National Outcomes or 'strategic priorities' of the Board, ensuring that the focus in each year is aligned with the five-year strategy. HIS also needs to make a clear link between the use of resources and outcomes achieved.

2019/20 Update: HIS has linked the operational plan priorities to the National Outcomes using an appendix. HIS still needs to make a clear link between the use of resources and outcomes achieved once it has developed its 2020/21 KPIs.

2019/20 Conclusion: We welcome the improvements made in the year, and encourage HIS to continue with these improvements, embedding links between resource usage and outcomes achieved.

National Reports

Management have reviewed the 'NHS in Scotland 2019' report and identified those items which are specifically relevant for HIS. Those items have been reported to the Board.

Deloitte View – Financial sustainability

We are pleased to note that across the areas we considered, improvements have been made in every area since 2018/19. We would encourage HIS to continue with these improvements, particularly in key areas where further improvement is needed: Achievement of recurring savings; medium-term planning; a focus on transformational change, and delivering outcomes.

The Board achieved short-term financial balance in 2019/20. A balanced budget has been set for 2020/21 which confirms £2m of savings are required, with £1.5m of these being identified in the budget. The impact of COVID-19 poses a risk to the achievement of short-term financial balance in 2020/21.

The position in the medium term shows that there are significant gaps with an annual £2.3m (6.6%) gap in both 2021/22 and 2022/23. As HIS lacks clear savings plans, is reliant on non-recurring savings (increasing from 78% in 2018/19 to 81% in 2019/20), and its change programme is still in development, we remain unable to conclude that HIS is in a financially sustainable position. The impact of COVID-19 further increases the risk surrounding financial sustainability.

While financial and workforce planning at HIS are generally of a high quality, we reiterate our recommendation that planning should cover 5 years in line with best practice, as looking to the long term facilitates a focus on recurring savings. The impact of COVID-19 will need to be taken into account in updated medium-term planning.

Audit dimensions (continued)

Other requirements

Standards of conduct for prevention and detection of fraud and error

2018/19 Conclusion: HIS' arrangements are appropriately designed and implemented.

2019/20 Update: We have reviewed HIS' arrangements for the prevention and detection of fraud and irregularities. Overall we are satisfied that HIS' arrangements are appropriately designed and implemented.

2019/20 Conclusion: No change – arrangements remain appropriate, appropriately designed and implemented.

National Fraud Initiative (NFI)

2018/19 Conclusion: HIS is fully engaged with the NFI exercise.

2019/20 Update: All Boards are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor HIS' participation and progress in the NFI during 2019/20 and submitted a an assessment of HIS' participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2020.

We concluded that HIS remains fully engaged in the exercise.

2019/20 Conclusion: No change – HIS remains fully engaged in the NFI exercise.

Internal audit

2018/19 Conclusion: HIS' has appropriate internal audit arrangements in place for examining, evaluating and reporting on the adequacy of internal controls.

2019/20 Update: Grant Thornton provides the Internal Audit function for Healthcare Improvement Scotland.

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

2019/20 Conclusion: No change – arrangements remain appropriate.

Deloitte view

HIS has appropriate arrangements in place for the prevention and detection of fraud and other irregularities, and is fully engaged in the NFI exercise.

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 help the Audit and Risk Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your annual report and accounts.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was 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, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

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

Use of this report

This report has been prepared for the Board, 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.

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | [29 May 2020]

Sector developments

Sector developments

Responding to COVID-19

As part of our "added value" to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been unchartered territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic's likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast.

2. Governments could be left with higher debt after a shock to the public finances.

3. Debates around inequality and globalisation are renewed.

4. Lines have blurred between organisations and sectors.

5. The lockdown has accelerated collaborative technologies.

6. Civil society has been rebooted and citizen behaviour may change.

7. The legacy that still needs to be captured.

Read the full article at:

https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing
- **Exit timelines**: This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link: https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover, to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html

Appendices

Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) SoCNE £	Debit/ (credit) in SoFP £m	Debit/ (credit) prior year SoCTE £m	If applicable, control deficiency identified
Legal provision	[1]	(41,000)	41,000	-	
Accruals and Creditors reclassification	[2]	-	-	-	Page 17
Dilapidations provision	[3]	308,574	(308,574)	-	Page 17
Total		**267,574**	**(267,574)**	**-**	

[1] During the audit, it was identified that an adjusting event occurred as an employment tribunal decision was determined in HIS' favour. Although there is a possibility of appeal there is no probable outflow from HIS meaning this should not be recognised as a provision. We have posted the adjustment for this, reducing the provision by £41,000 and including a contingent liability disclosure in its place (page 32.) This adjustment also reduces expenditure by £41,000, thereby increasing HIS' reported surplus by the same amount.

[2] During our audit testing we identified a number of invoices within accruals where the invoice was received but not matched by year end and an accrual was made. However this classification is incorrect. If an invoice has been received but not matched it still represents a payable rather than an accrual at the year end date. The impact of this classification adjustment is to decrease accruals by £371,371 and increase payables by £371,371. There is no impact on the net position in the Statement of Financial Position and no impact on the surplus reported in the Statement of Comprehensive Net Expenditure.

[3] As set out on page 14, we have adjusted the dilapidations provision to bring it into line with the best estimate of the provision for which HIS was liable at the year-end date. Management's initial estimate did not take into account some known factors (such as labour costs), adjust independent reports for HIS-specific conditions (such as unit numbers where cost is per unit), properly weight differences in expert opinion (e.g. where experts disagree and the point is subject to negotiation) or obtain additional information which they reasonably could have been expected to obtain (e.g. an estimation of recoverable costs or a building survey as recommended by their legal advisors) in order to determine the best estimate of the provision. Making changes for each of these areas has increased the provision by £308,574 from £868,000 to £1,176,574. This increases the provision in the Statement of Financial Position and the associated expenditure in the Statement of Comprehensive Net Expenditure, thereby reducing HIS' reported surplus. However, we are aware that the Scottish Government will increase HIS' 'annually managed expenditure' allocation so that there is no ultimate impact on the surplus recorded.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration & Staff Report - Headcount Due to the payroll report having double counting issues, the headcount disclosure has been overstated by nine in the current year. Headcount has been reduced from 511 to 489 in the revised financial statements to correct this error.	Headcount year on year split by gender and staff group.	Qualitatively material – Important for the users' understanding of movement in the payroll costs.
Key judgements and sources of estimation uncertainty The disclosure of key judgements should be amended to include items such as: - How the deferral of income is managed - How accruals are recognised - How depreciation/amortisation rates are determined - How what is provided for and what is not is determined The estimates disclosure should be amended to include items such as*:* - Required to set out the amount of the estimate, the key assumptions that underpin it and any estimation uncertainty attached to that. If possible, the impact should be quantified if other judgements were applied. - Deferral of income and dilapidations provision should be specifically included here. It is up to management to determine if other estimates (e.g. depreciation) are material.	Key judgements made by management in the preparation of the accounts and the sources of estimation uncertainty which could have a material effect on the amounts disclosed in the accounts.	Qualitatively material – This is an accounting standard requirement and is a key focus area for regulatory bodies.

Audit adjustments (continued)

Disclosures (continued)

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Note 3 – Expenditure Split During the audit, it was identified that the disclosure for expenditure split was picking up some codes which included pay expenditure and therefore the NHS Scotland disclosure was overstated and the Private Providers understated by c£2m. The pre-adjustment figures were £6,709 for NHS Scotland and £1,899 for Private Providers, with these being adjusted to £4,282 and £3,922 respectively in the revised financial statements.	Non-pay expenditure split by supplier type.	Quantitatively material – Classification error of £2.427m.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	Financial sustainability	HIS need to increase their focus on identifying recurring savings, through the use of available funding for transformation change to drive the change/improvement needed to bring HIS to a financially sustainable position. These efforts will be aided through the development of a 5 year financial and workforce planning approach. (For further details see page 22.)	The Internal Improvement Oversight Board's remit is to drive efficiency. This coupled with improvements in workforce planning should deliver improvements in recurring savings. The budget for 2020/21 includes a bridging fund to enable investment in capacity for QAD, Evidence and Corporate Services and this is included in the Workforce Plan. The fund will also support digital investment to enable improved efficiency and effectiveness. It is accepted that identifying recurring savings will make HIS more financially sustainable and that for this to be successful a significant corporate focus is required. We will endeavour to forecast beyond 3 years by extrapolating information based on a best case/worst case scenario which should support mitigation of the uncertainties that surround 5 year planning.	Director of Finance & Corporate Services	31/03/21	High
2	Internal Control: Cash	We recommend that an employee of HIS is appointed as a new signatory so that HIS can access the cash within the RBS drawdown account. In addition, a process should be put in place to review account access when an employee leave to prevent this occurring again. (For further details see page 17.)	This account is monitored and reconciled on a monthly basis. The signatory will be updated and an internal control will be put in place to strengthen the existing process when employees leave.	Head of Finance	31/07/20	Medium

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
3	Internal Control: Management review	We would recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft annual report and accounts. (For further details see page 17.)	Management reviews did take place. The audit started approximately 1 week earlier than the 18/19 audit, this combined with logistical difficulties relating to COVID-19 meant that management review in some areas overlapped with the audit of information. For the 20/21 audit we will look to commence this a week later and will ensure no overlap between management review and provision of data for audit. We will also work constructively with Deloitte on the timetable to identify improvements in process.	Head of Finance	31/12/20	Medium
4	Internal Control: Payroll	We recommend that the issue with the payroll report double counting employees is investigated so that no manual intervention is required and it does not therefore require prior staff experience or pose a risk to disclosures in the financial statements. (For further details see page 17.)	This report is produced by NSS, we will discuss amending this report and ensure that the automated report is updated and manual intervention is not required	Finance Manager	30/09/20	Low

Action plan (continued)

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and are pleased to note that 6 of the total 8 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	While HIS complies with Scottish Government requirements to have a three-year Annual operating Plan, it does not have a longer-term (e.g. 5-10 years) financial plan and should begin the process of preparing this, in line with good practice. This should be linked to HIS' five-year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government's five-year MTFS. HIS needs to ensure that it's medium-term financial outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes.	As noted, HIS' financial plan is consistent with Scottish Government requirements. The financial plan is also consistent with the five year strategy document which runs through to 2022. As part of the 2020 planning process HIS will expand its financial plan to 5 years and ensure that it's medium-term financial plan outlines how anticipated spend over the medium term aligns with the key themes on public service reform.	Director of Finance & Corporate Services	31/03/2020	High	*Partially implemented. We will consider progress against this in our 20/21 audit, taking into account the uncertainty and changed environment as a result of the COVID-19 pandemic.* **Updated management response:** The Scottish Government reporting period remains at 3 years and HIS has complied with this. The HIS 20/21 operating plan was developed on the required 3 year basis but has already changed to a short-term Mobilisation Plan in response to the COVID-19 pandemic. A high level financial forecast has been undertaken to ensure that HIS can operate within its funding environment for 20/21 and this has been shared with the Board who have approved it. It is anticipated that revisions to the Mobilisation Plan will be frequent for the foreseeable future as HIS adapts its work to support the immediate needs of health and social care. A framework for reactivating some work is being prepared and will be shared with the Board. A major feature of the framework is having the workforce capacity to deliver the mobilisation plan. This is our largest cost and it is the management of the staffing cohort that delivers financial sustainability for HIS. This is also clear as an objective throughout the workforce and development plan 2020-2023.

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Independent Healthcare Income – Deferred Income	The CRM system used by the independent healthcare clinic team already enables reports to be run on registered clinics, but not on those going through registration. The CRM system should be enhanced to enable reports to be run on registrations in progress, by stage of progress, including what fee has been received, automatically calculating the amount of income to be deferred. This will remove duplication of effort by the independent healthcare clinic team and finance, reduce the time involved in maintaining the information, and result in more accurate information.	Agreed. We will develop the CRM system during 2019/20 to provide more detailed reporting on IHC.	Head of Finance & Procurement	31/12/2019	Low	*Partially implemented. We will follow up progress on the planned implementation of a new billing system in 20/21 to ensure this recommendation in appropriately addressed.* **Updated management response:** As a result of the COVID-19 pandemic continuation fees have been suspended until 1/9/20. When billing recommences all continuation fees will be charged on a calendar basis i.e. up to 31 March. This will remove the requirement for a deferral calculation on continuation fees. During 19/20 we undertook a review of replacement options for the CRM system and as a result development work was minimised. Once this exercise has formally concluded we will look again at an automated solution for the registration income deferral.

Our other responsibilities explained

Fraud responsibilities and representations

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. As the auditor, 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.

Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in expenditure recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified relating to fraud.

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:

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 and our objectivity is not compromised.
Fees	The audit fee for 2019/20, revised slightly above the expected fee range provided by Audit Scotland, is £29,225, as analysed below: £ Auditor remuneration 25,285 Audit Scotland fixed charges: Pooled costs 2,620 Audit support costs 1,320 **Total fee 29,225** No non-audit services fees have been charged for the period.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company'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.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Fee analysis:

	£
Auditor remuneration	25,285
Audit Scotland fixed charges:	
Pooled costs	2,620
Audit support costs	1,320
Total fee	**29,225**