

NHS Health Scotland

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

Issued on 12 August 2020 for the meeting on 19 August 2020

Contents

01 Our report

Introduction 3

Financial statements audit

Quality indicators 7

Our audit explained 8

Significant risks 9

COVID-19 outbreak 13

Other significant findings 14

Our audit report 15

Your annual report 16

Audit dimensions

Overview 18

Financial sustainability 19

Purpose of our report and
responsibility statement 22

02 Sector Developments

Responding to COVID-19 24

03 Appendices

Audit adjustments 27

Action plan 29

Our other responsibilities explained 32

Independence and fees 33

Quality of public audit in Scotland 34

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 Committee ('the Committee') of Public Health Scotland (PHS) as agreed with NHS Health Scotland (NHS HS) ('the Board') under transitional arrangements agreed for the body for the 2020 audit. The scope of our audit was set out within our planning report presented to the NHS HS Audit Committee in November 2019. NHS HS ceased to exist and all functions were transferred to PHS at 1 April 2020. Following correction of disclosure misstatements identified on page 28, appropriate disclosure has been made of the transfer in the Annual Report and Accounts. We have concluded our audit appointment in relation to NHS Health Scotland.

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 NHS HS 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 disclosure misstatements 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 NHS HS.

Following correction of the misstatements identified on page 28, 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 9.

We have identified one financial statement misstatements in excess of our reporting threshold of £22,000, as documented at page 27. We have identified two disclosure deficiencies up to the date of this report relating to the Remuneration and Staff Report and increased disclosures required relating to going concern further details are included on page 28 of this report.

Conclusions on audit dimensions

Governance statement - The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability – The Board achieved short term financial balance in 2019/20 and has achieved the savings set out in the 2019/20 budget. NHS HS put in place appropriate arrangements to prepare for the transition to PHS. As NHS HS did not have any planning in place after 2019/20 (which is appropriate given the transition to PHS), we cannot conclude on the financial sustainability of NHS HS as it transitions to PHS.

Transition to Public Health Scotland - The arrangements put in place by NHS HS were appropriate and have been made in line with communication from the Sponsor Group. Transition arrangements regarding the financial statements had not been finalised at February 2020 and decisions regarding staffing could have been taken at an earlier stage to enable costs to be kept to a minimum. In particular, from our audit of the exit package (£189k) provided to the former Chief Executive as a result of the transition, a payment in lieu of notice (£54k) for 5.5 months was made. Had the decisions been progressed at an earlier stage, these costs could have been reduced or avoided, achieving better value for money.

Introduction (continued)

The key messages in this report (continued)

Next steps

Due to the transition to PHS we have not made any recommendations in this report.

Added value

Our aim is to add value to NHS HS 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 NHS HS 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 we have provided guidance in relation to the processes and procedures required for approval of the final Annual Report and Accounts. We 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.

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

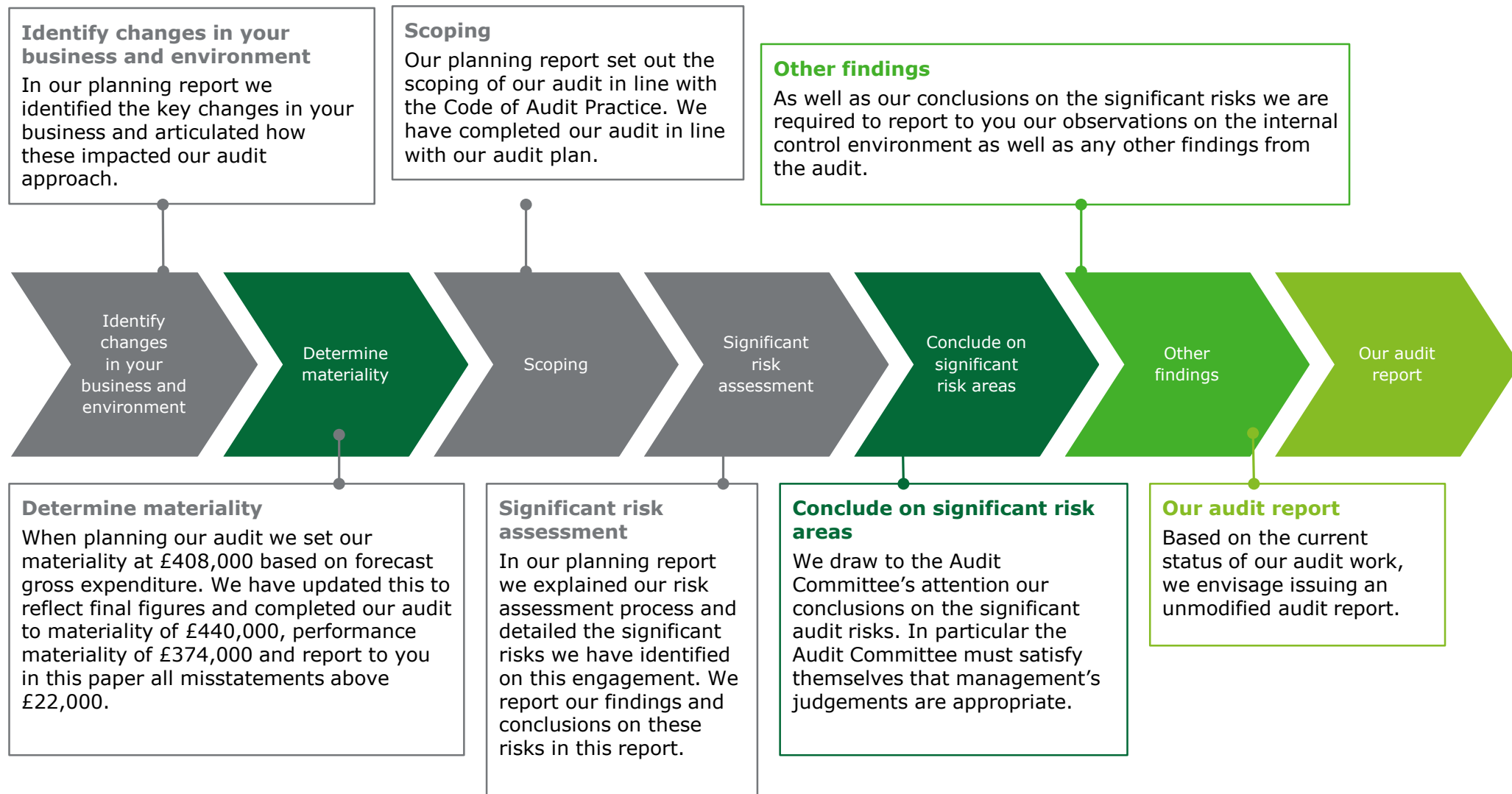
Impact on the execution of our audit

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		Prompt timing of key accounting judgements with provisions and accruals prepared in advance and the calculations made available on a timely basis.
Adherence to deliverables timetable		While a revised deliverables schedule for the financial statements was agreed, the financial statements were not received until 1 month after the revised timetable. This was as a result of unexpected staff absence during the audit period. However, we did receive some working papers which allowed Deloitte to progress some testing. There was a delay in communicating reporting deadlines to Deloitte with the information and reporting timetable communicated with little notice and a tight timeline for completion of the audit.
Access to finance team and other key personnel		Access to finance team personnel has been good with the use of virtual conferencing facilities used.
Quality and accuracy of management accounting papers		On the whole the quality of the management accounting papers has been of a good standard.
Quality of draft financial statements		There have been some issues with some sections of the financial statements not being updated from previous years. Further disclosure is required given the machinery of government change to PHS as set out on page 28.
Response to control deficiencies identified		No control deficiencies raised in 2019/20. Although our previous findings have not been fully implemented, we accept that given the transfer to PHS that there are limited improvements which could have been acted upon by NHS HS in 2019/20.
Volume and magnitude of identified errors		We have identified one financial statement misstatement relating to accruals and two disclosure deficiencies relating to the remuneration report and going concern.

Our audit explained

We tailor our audit to your business and your strategy



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 limit			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

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 NHS HS to comply with the Revenue Resource Limit set by the Scottish Government Health and Social Care Directorate (SGHSCD).

There is a risk that NHS HS 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 the level of brokerage required. The significant risk is therefore pinpointed to the completeness of accruals and existence of 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

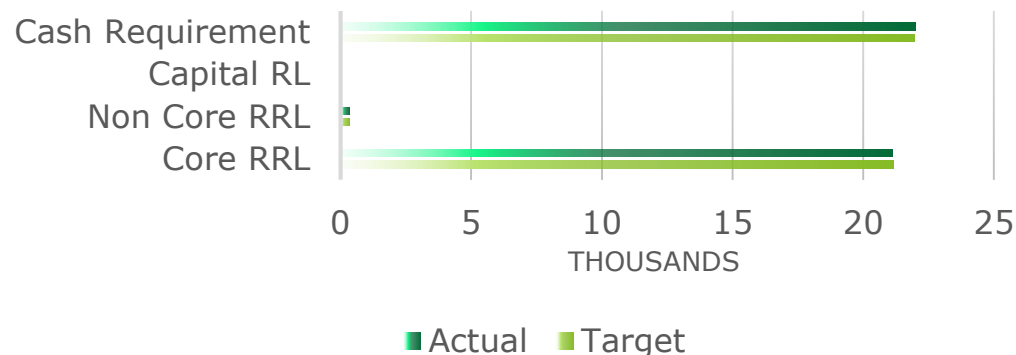
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



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

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 NHS HS' controls for specific transactions.



The key judgments in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. 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 page 12.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- NHS HS' results throughout the year were projecting 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 page 12.

We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements (including accruals, 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.

One misstatement was identified in the current year relating to general accruals for COVID-19 costs which were not supported by evidence of post year-end invoices or payments (further details included on page 28).

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 did identify one misstatement relating to general accruals for COVID-19 costs which were not supported by evidence of post year-end invoices or payments.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgments 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 CNORIS, injury benefit provisions and accruals are other key judgement 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 about this threshold are reimbursed from the CNORIS scheme by the Scottish Government. NHS HS provide for all claims notified by the NHS Central Legal Office, according to the value of the claim. There are no claims specific to NHS HS included in the provision. NHS HS also provides for its liability from participating in the scheme. This provision recognises NHS HS’ 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.	<p>The provision is valued by the Central Legal Office (CLO) based on the information on claims and historical experience. The value of claims is notified to NHS HS by the CLO. In 2019/20, this amount is £nil as there are no specific claims against NHS HS outstanding.</p> <p>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.</p>
Accruals	Accruals relating to NHS HS operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.	<p>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.</p> <p>Based on the procedures performed, we are satisfied that the estimate is reasonable following adjustment of the misstatements identified on page 27.</p>
Injury Benefit Provision	NHS HS has provided for awards under the permanent injury benefits scheme, in discussion with the Scottish Government under the AME provision resource limit. The provision is based on information and advised annual rates provided by the Scottish Public Pensions Agency (SPPA), under the NHS Superannuation Scheme and estimated remaining lives of recipients derived from interim life tables for Scotland produced annually by National Statistics. The sum provided is recalculated annually based upon changes in their annual rates and period life expectancy at the balance sheet date. The provisions are discounted at the rate set by HM Treasury.	<p>Deloitte have confirmed the injury benefit award to confirmation from the Scottish Government, and recalculated the provision required based on information obtained directly from the SPPA, National Statistics and HM Treasury.</p> <p>Our legal confirmation obtained directly from the CLO provides assurance that the provision is complete and no other claimants ought to be included.</p> <p>No issues were noted in the testing performed.</p>

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 Committee needs to consider. The Technical Accounting Group has issued guidance relating to the impacts on the Annual Report and Accounts to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on the annual report and accounts

The Board 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 and late notification of the reporting date.
- 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 August 2020.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

NHS HS Annual Report and Accounts have been prepared in accordance with the FReM.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the transition to PHS.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

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 we expect that our opinion on the financial statements will be 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.

The adoption of the going concern basis of accounting remains appropriate despite dissolution of NHS HS on the transition to PHS, as this is treated as a machinery of government change in line with Practice Note 10 (as issued by the Financial Reporting Council) and the Government Financial Reporting Manual ('FReM').



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.

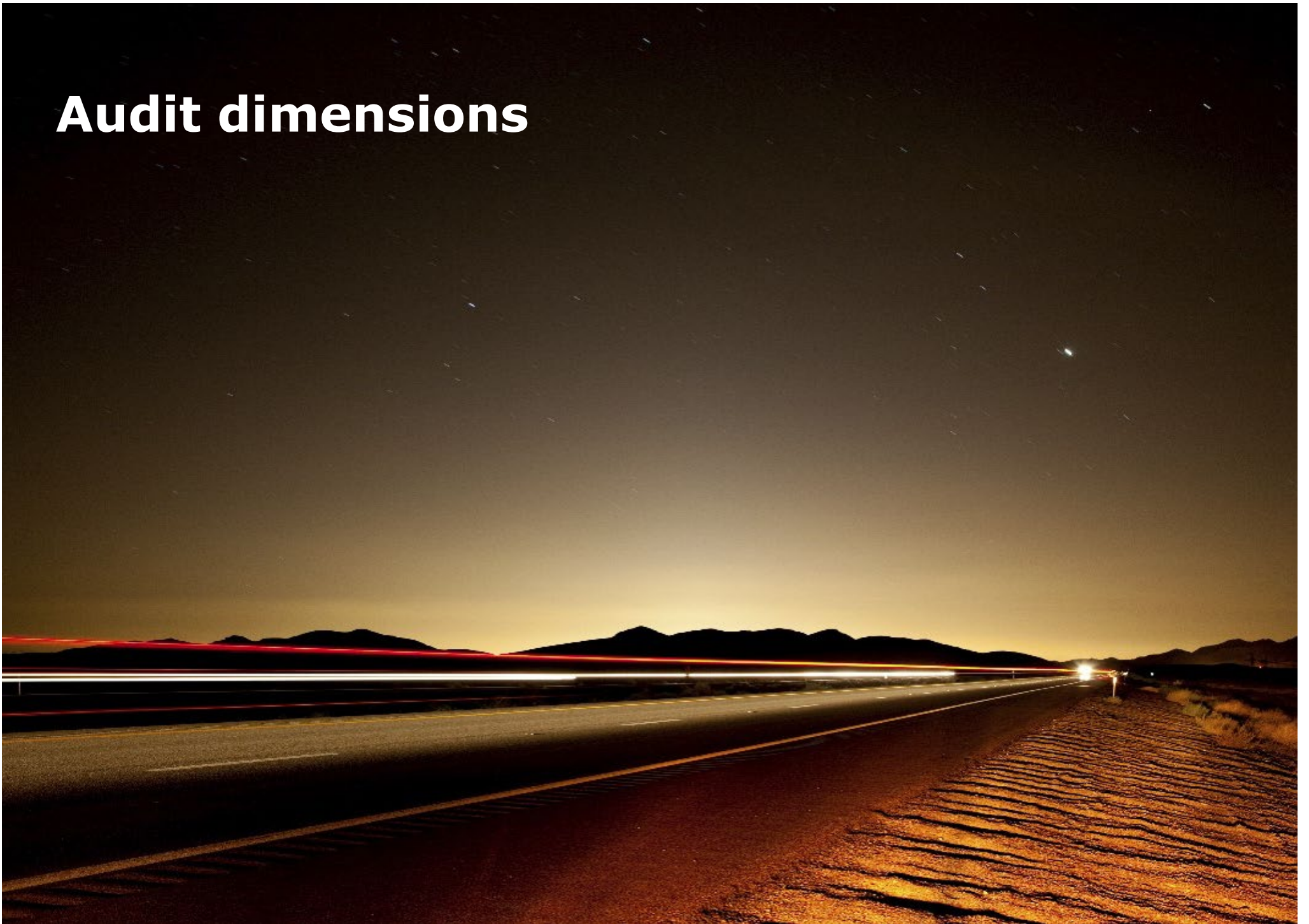
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 16.

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 Annual Report and Accounts and our knowledge obtained during the course of the audit.

	Requirement	Deloitte response
The Performance Report	The report outlines NHS HS's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operating Plan.	<p>We have assessed whether the Performance Report has been prepared in accordance with the accounts direction. We have not identified any issues in our review.</p> <p>We have also read the Performance 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.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, Remuneration and Staff Report and the Parliamentary Accountability Report.	<p>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. We suggested additional disclosure regarding the governance arrangements post year-end and this has been updated by management.</p> <p>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.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and following adjustments as detailed on page 28, confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that the functions of NHS HS have transferred to PHS at 1 April 2020. This is treated as a machinery of government transfer and therefore the adoption of the going concern basis is appropriate, in accordance with the FReM.</p> <p>We have confirmed that the disclosure relating to the adoption of the going concern principal and the transfer to PHS is appropriate following updates by management highlighted as a result of our audit. Our disclosure deficiency is highlighted on page 28.</p>

Audit dimensions



Audit dimensions

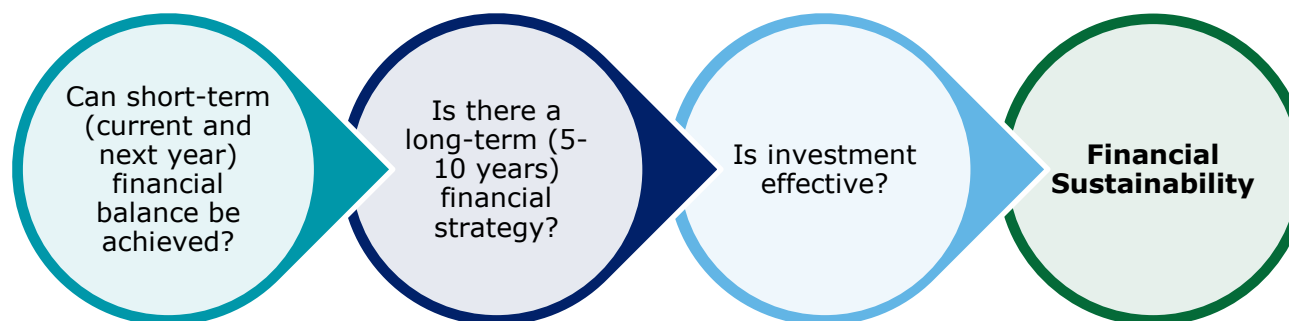
Overview

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 16); and
- The **financial sustainability** of NHS Health Scotland 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 NHS HS 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.
- There is a risk that the ongoing work of NHS Health Scotland is insufficient to meet its targeted outcomes.

Audit dimensions (continued)

Short-term financial balance

2018/19 Conclusion: NHS HS achieved a breakeven position in 2018/19 reporting an underspend of £343k. We cannot conclude on any period after 2019/20, as NHS HS has not quantified any expected funding gap beyond that.

2019/20: NHS HS was reporting an underspend throughout the year and forecasting a year-end breakeven position, with this regularly reported to the Board and closely monitored.

NHS HS achieved a surplus position in 2019/20, reporting an underspend of £411k. In the 2019/20 budget, the Board noted and approved a funding gap of £391k on the assumption that this gap would be closed through in-year savings. In the event, NHS HS has achieved the £325k savings required for contribution to the National Boards savings target, plus a further contribution of £86k, and has reported a further underspend of £411k; achieving the required savings. While it is not best practice to agree budgets based on unidentified savings, we commend NHS HS on the level of savings achieved.

NHS HS has participated in the set-up of the new PHS body and informed their 2020/21 budget. As NHS HS ceases at 31 March 2020, there has been no budget prepared for NHS HS in 2020/21.

Conclusion: No change from 2018/19

Medium-term financial planning

2018/19 Conclusion: While NHS HS has achieved a break-even position in 2018/19 and is forecasting to do so for 2019/20, it does not have detailed financial planning in place following 2019/20. There is no indication in NHS HS' Annual Operating Plan that the Scottish Government's MTFs has been considered.

2019/20: A body is considered to be financially sustainable if it: (i) has adequate reserves, (ii) is spending within budget and (iii) has credible medium term plans in place. In line with previous years and NHS HS ceasing at 31 March 2020 there is no financial planning beyond 2019/20 (which is appropriate given the transition to PHS).

Conclusion: No change from 2018/19

Transition to Public Health Scotland

2018/19 Conclusion: We are satisfied that NHS HS are appropriately preparing for and prioritising transition, with the level of staff time spent on preparations by NHS HS increasing substantially in the year. Transition is regularly considered by the Audit Committee and the Board and is a regular item of discussion among management.

2019/20: NHS HS transitioned into PHS in April 2020. NHS HS put arrangements in place to prepare for the transition including:

- Ongoing communication with the Sponsor Group and Scottish Government;
- Shadow SMT Meetings until PHS chief executive appointed;
- PHS Delivery Group meeting participation by key staff;
- Members of NHS HS SMT leading implementation working groups; and
- Regular reporting to the NHS HS Audit Committee and Board on progress and risks for NHS HS.

Conclusion: The arrangements put in place by NHS HS were appropriate and have been made in line with communication from the Sponsor Group. Transition arrangements regarding the financial statements had not been finalised at February 2020 and decisions regarding staffing could have been taken earlier stage to enable costs to be kept to a minimum. In particular, from our audit of the exit package (£189k) provided to the former Chief Executive as a result of the transition, a payment in lieu of notice (£54k) for 5.5 months was made. Had the decisions been progressed at an earlier stage, these costs could have been reduced or avoided, achieving better value for money.

National Reports

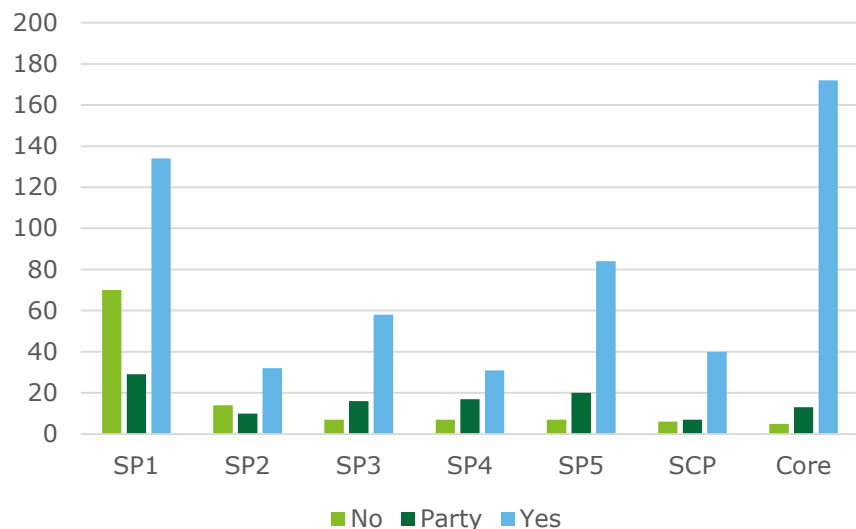
The 'NHS in Scotland 2019' report by Audit Scotland was considered at the March 2020 Audit Committee meeting. The Director of Finance presents a report at every Audit Committee detailing recent publications within the sector. This details any information which is relevant for NHS HS and provides internet links for further reading. The sharing of relevant reports on a regular basis ensures the Audit Committee remain up to date on developments and best practice, and the approach adopted by NHS HS to this is an area of best practice that they should be commended on.

Audit dimensions (continued)

Delivery Plan Performance

2019/20 Delivery plan performance is mixed. Below we have reviewed performance against the outputs split down by Strategic Priority (SP):

Output performance by SP



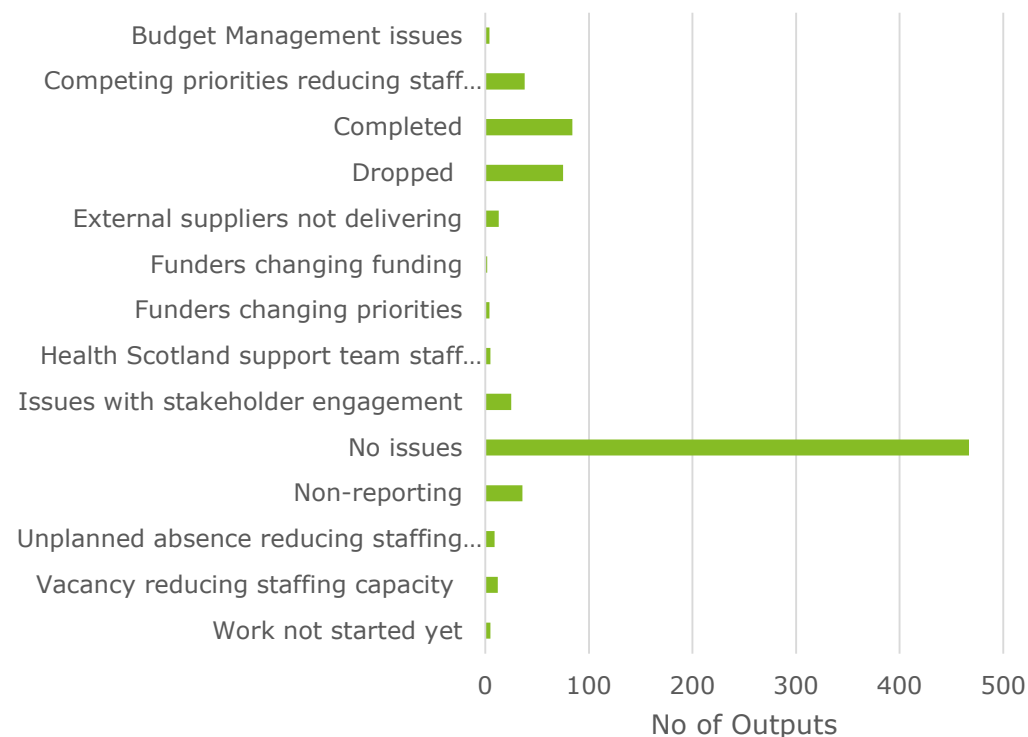
In total, 551 (71%) outputs have been achieved across the Board with 112 (14%) partly achieved and 116 (15%) not achieved or dropped during the year. This is compared with 68% achieved, 9% party achieved and 23% not achieved in 2018/19. This is an improvement in performance year on year.

We have reviewed the issues affecting delivery of outputs within Q3 2019/20 (the latest report available). 71% of outputs were completed or had no issues. 10% of the outputs were dropped and 6% of issues were external to the organisation meaning that removing external issues, performance would have been 77% which is in line with 2018/19 (76%).

Given the transition to PHS utilising an increasing level of NHS HS staff resources it was expected that some of the delivery of NHS HS SP's would slip. We note that COVID-19 will have an impact on the final month's performance.

The SPs identified by NHS HS do not automatically transfer into PHS given that it is an entirely separate body. The risk is that some of these SPs will fall off the radar and the work to date is lost.

Issues affecting delivery of Outputs



Deloitte View – Financial sustainability

The Board achieved short-term financial balance in 2019/20 and has achieved the savings set out in the 2019/20 budget. NHS HS has put in place arrangements to prepare for the transition to PHS.

NHS HS does not have any planning in place after 2019/20 (which is appropriate given the transition to PHS); we therefore cannot conclude on the financial sustainability of NHS HS due to the transitions to PHS.

The SPs identified by NHS HS do not automatically transfer into PHS given that it is an entirely separate body. The risk is that some of these SPs will fall off the radar and the work to date is lost.

Other requirements

Fraud considerations

Standards of conduct for prevention and detection of fraud and error

2018/19 Conclusion: We found the Board's arrangements to be appropriately designed and implemented.

2019/20 Update: We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be appropriately designed and implemented.

Conclusion: No change.

National Fraud Initiative (NFI)

2018/19 Conclusion: We concluded that the Board was fully engaged in the exercise.

2019/20 Update: All Boards are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Board's participation and progress in the NFI during 2019/20 and submitted an assessment of the Board's 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 the Board was fully engaged in the exercise.

Conclusion: No change

Deloitte view

NHS HS 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 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; and
- Other insights we have identified from our audit.

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.

Use of this report

This report has been prepared for NHS HS, 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.


What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to NHS HS.

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.

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 | 12 August 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 uncharted 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 £000's	Debit/ (credit) in SOFP £000's	Debit/ (credit) prior year SOCTE £000's	If applicable, control deficiency identified
Accrual for COVID-19 Costs	[1]	(44)	44	-	-
Total		(44)	44	-	

[1] During our audit, it was identified that a general accrual had been made for COVID-19 expenditure in relation to staff expenses and holiday pay. However, there were no invoices or expense claims received post year-end and no evidence of additional holiday carry forward as a result of COVID-19 to support this accrual within NHS HS. Deloitte therefore raised a misstatement which has been corrected by management.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

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

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report – Disclosure deficiencies have been identified within the remuneration report as follows: <ul style="list-style-type: none">- Non-disclosure of exit packages- Pension tables not updated for 2019/20 values- Median Ratio calculated incorrectly – requirement to use the mid point of the highest paid band disclosed (65-70)- Trade Union Facility Time (TUFT) Disclosures were not in the prescribed format.	FReM 5.2 Trade Union (Facility Time) Regulations 2017	Qualitative – Important for the users’ understanding of payroll costs.
Going Concern – Increased disclosure regarding going concern and the “machinery of government” transfer to PHS.	IAS 1	Qualitative – Important for the users’ understanding of the adoption of the going concern basis despite the transfer of functions to PHS at 31 March 2020.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial Statement Audit: Management Review</i>	We recommend that management conduct a review of the financial statements prior to putting them forward for audit. This will improve the efficiency of the audit and reduce the level of comments received back, financial and disclosure misstatements identified by the audit team.	Noted	N/A	N/A	N/A

Action plan (continued)

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and note that 0 of the total 5 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented.

Area	Recommendation	Priority	2019/20 Update	
Financial Sustainability	<p>NHS HS only has short-term financial planning in place, covering the coming year. It does not have a detailed longer-term financial plan and should begin the process of preparing this, in line with good practice. This should be linked to NHS HS' five-year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government's five-year MTFS.</p>	High	<p><i>Not implemented:</i></p> <p>Updated management response:</p> <p>With the impending dissolution of Health Scotland the above points would not be taken forward within Health Scotland but carried forward to the new public health body.</p>	
	<p>NHS HS needs to ensure that its financial planning is consistent with the Scottish Government MTFS and 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.</p>			Financial Sustainability
Financial Sustainability	<p>NHS HS needs to make a clear link between the use of resources and outcomes achieved. This means including the anticipated resource use in the operational plan - which is then itself linked to the strategic priorities - to enable the Board to monitor which strategic priorities are receiving the most resources and improve scrutiny of performance against each priority.</p>	High	<p><i>Not implemented:</i></p> <p>Updated management response:</p> <p>As above</p>	

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Priority	2019/20 Update
<i>Financial Sustainability</i>	<p>NHS HS should make improvements in line with recently issued guidance to its workforce planning arrangements. The plan should project the medium-to-longer term workforce against estimated changes in demand and remit, costing the changes in workforce required. The workforce plan should include detailed analysis on staff turnover, identified workforce needs and associated actions and links to workforce development. The plan should also consider workforce behaviours, recruitment, promotion, turnover, absenteeism and productivity.</p>	Medium	<p><i>Not implemented:</i></p> <p>Updated management response: With the impending dissolution of Health Scotland the above points would not be taken forward within Health Scotland but carried forward to the new public health body.</p>
<i>Financial Sustainability</i>	<p>NHS HS needs to improve the detail in its Annual Report and Accounts on what outcomes it is aiming to progress, providing information on when these are to be achieved by, progress against them and actions taken to remediate areas where performance is not as expected.</p> <p>The outcomes and objectives set out in the delivery plan would be improved by including a clear link against each to one of the National Outcomes or 'strategic priorities' of the organisation, ensuring that the focus in each year is aligned with the five-year strategy.</p>	Medium	<p><i>Not implemented:</i></p> <p>Updated management response: As above</p>
<i>Financial Sustainability</i>	<p>NHS HS should consider its approach to openness and transparency at a Board level, reaching a position on how to be increasingly open and transparent through a process of consultation and developing an associated action plan.</p>	Medium	<p><i>Not implemented:</i></p> <p>Updated management response: As above</p>

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 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.



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 or group.

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 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 our objectivity is not compromised.

Fees

The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £37,980, as analysed below:

	£
Auditor remuneration	32,370
Audit Scotland fixed charges:	
Pooled costs	3,730
Audit support costs	1,880
Total fee	37,980

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.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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