

## Public Health Scotland

Report to the Finance, Audit and Risk Committee, the Board and the Auditor General for Scotland, on the 2020/21 audit

Issued on 10 June 2021 for the FARC meeting on 15 June 2021

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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 Finance, Audit and Risk Committee (“the FARC”) of Public Health Scotland (“PHS”) for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the FARC in March 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Report and Accounts**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers’ duty to secure best value.



# 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 updates made by management, the performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of PHS (see page 16 for further details).

Following updates made by management, the auditable parts of the Remuneration and Staff Report have been prepared in accordance with the relevant regulation (see page 16 for further details).

A summary of our work on the significant risks is provided in the dashboard on page 9. PHS met its financial targets for 2020/21 with a small surplus of £25,000. The targets were significantly altered for the additional work arising during the year in the response to the COVID-19 pandemic.

No uncorrected misstatements in excess of our reporting threshold of £64k have been identified to date.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions. As discussed in our audit plan, the risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how PHS has responded to these risks.

Our overall conclusions on each dimension are summarised below, with full details provided in the main body of the report:

#### ***Financial Management***

PHS has established strong financial management arrangements during 2020/21 with timely financial reporting. There were significant changes to its budget throughout the year due to COVID-19. All savings were achieved through vacancy management which management recognise is not sustainable for the medium to long-term. PHS has entered into an SLA to ensure that it has sufficient operational financial capacity.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

#### *Financial Sustainability*

Given the significant uncertainty affecting PHS, including the ongoing impact of COVID-19, the organisational change underway and the early stages of PHS's operations, it is not possible for us to conclude at this stage as to whether PHS is in a financially sustainable position in the medium to longer-term. It is positive to note that an initial 3-year financial plan has been prepared. As noted below, PHS has a strong leadership in place and has adapted well during its first year in response to the pandemic. However, it is too early to say based on the evidence available whether PHS has the necessary skills and capacity to deliver transformation. Management are aware of the need to reassess capacity to deliver projects on an ongoing basis.

#### *Governance and transparency*

PHS has strong leadership in place at both SLT and Board level. This has been particularly evident in the establishment of PHS and in the response to the COVID-19 pandemic. PHS has effective governance and scrutiny arrangements in place, underpinned by clear governance documents and demonstrated through high attendance and effective scrutiny and challenge at Board and committee meetings. Allowing for the impact of COVID-19 and the establishment of PHS in the year, we understand why PHS is currently not as open and transparent as it could be in relation to publication of information.

#### *Value for money*

We recognise that the COVID-19 pandemic has had a significant impact on the organisation. While achievements have been recognised, it is important that the organisation is able to demonstrate its impact using performance reporting as a tool going forward. Performance data at present does not show how the organisation is performing and what impact it is having on public health inequalities in Scotland.

### Best value

While PHS has a strong focus on continuous improvement and has achieved a lot in its first year of operation, it is too early to conclude on the effectiveness of the structures developed and implementation of plans to deliver that improvement to achieve best value. The planned work for of PHS in its first year of operation has been significantly impacted by the COVID-19 pandemic.

### Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided a summary of those most relevant to PHS as an Appendix on pages 43 and 48 of this report.

### Next steps

An agreed Action Plan is included in the Appendix on pages 53 to 54 of this report. We will consider progress with the agreed actions as part of our 2021/22 audit.

### Added value

Our aim is to add value to PHS 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 PHS promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition we have provided examples of best practice to management and board members in relation to openness and transparency and self-assessment.

# Annual report and accounts audit










# Quality indicators

## Impact on the execution of our audit

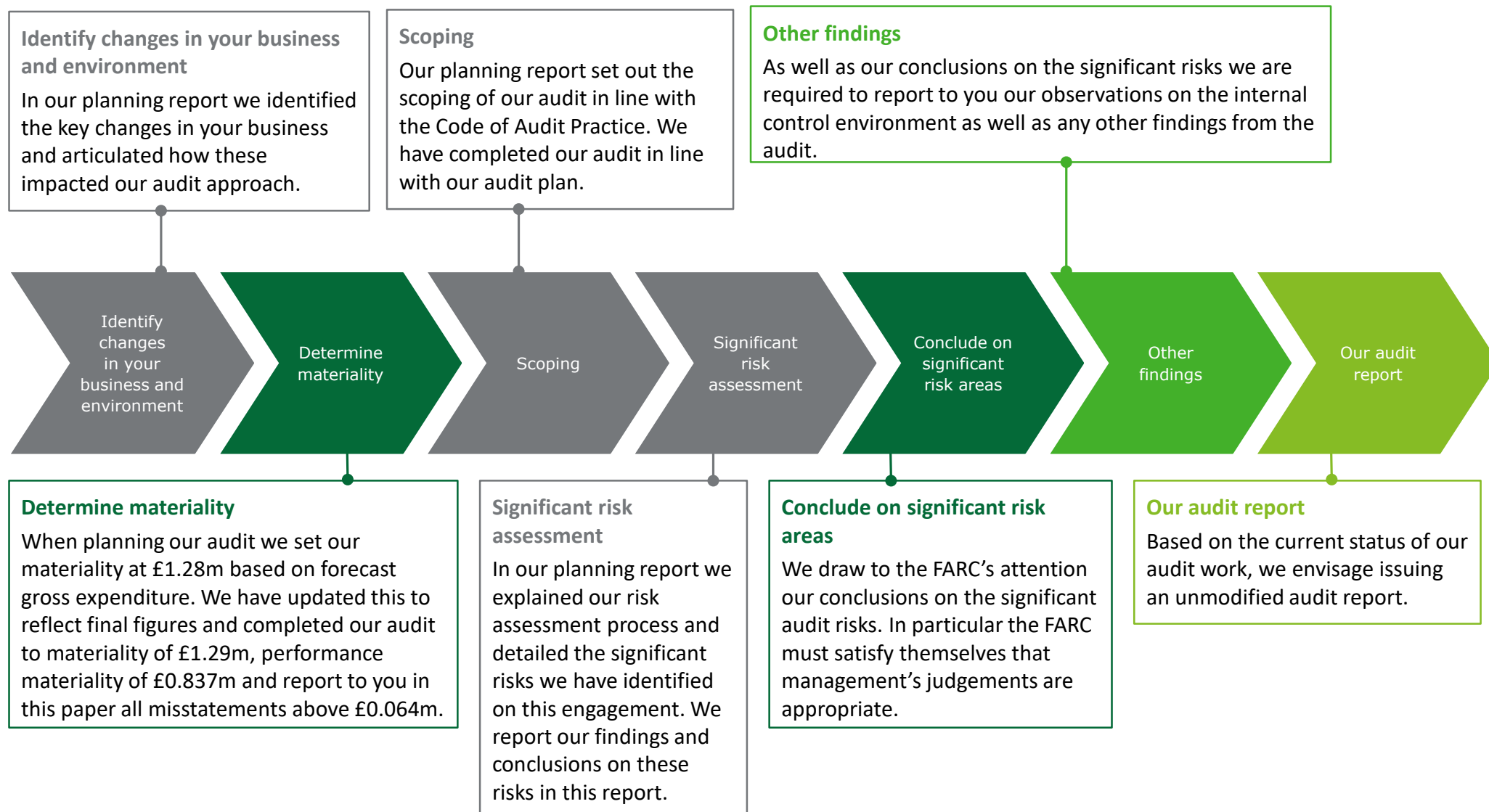
 Lagging
  Developing
  Mature

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. We acknowledge that this is the first year of audit for PHS and the metrics should be viewed in this context.

Area	Grading	Reason
Timing of key accounting judgements		Documentation in relation to key areas of judgement such as the injury benefit provision was not supplied until almost one month following the original agreed deadline. Calculations of the provision were supplied one week after the original deadline. Once reviewed we did not identify any issues.
Adherence to deliverables timetable		The audit of the Annual Accounts has been delayed due to the delayed receipt of supporting evidence. 56% of information was received on time with the remainder overdue on average by one week. The draft Annual Report and Accounts were received on 6 May 2021, a delay of four working days. As a result, we agreed a revised timetable with management for the completion of the audit by the end of June 2021. Some of the delays arose a result of delays from Scottish Government.
Access to finance team and other key personnel		Deloitte and PHS have worked together to facilitate remote communication during the audit. There were some issues with NSS staff not having resolved access issues to Deloitte Connect (our portal for sharing documentation) which could have been resolved prior to the year end audit.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. However, we encountered some issues with listings not reconciling to the draft accounts – in particular headcount, accruals and other income.
Quality of draft accounts		A full draft of the Annual Report and Accounts was received for audit on the 6 May 2021. Whilst generally compliant with the reporting requirements, a number of amendments were required. These were as a result of items being outstanding in the initial draft as well as misstatements identified throughout the audit and initial non-compliance with the reporting requirements (further details on page 16).
Response to control deficiencies identified		Control deficiencies have been disclosed on page 13 and management have investigated appropriately.
Volume and magnitude of identified errors		We have not identified any significant financial adjustments to date. We have identified a number of disclosure adjustments which could have been prevented by a more detailed management review.




# 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.
Operating within the expenditure resource limits			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)

## Operating within the expenditure resource limits

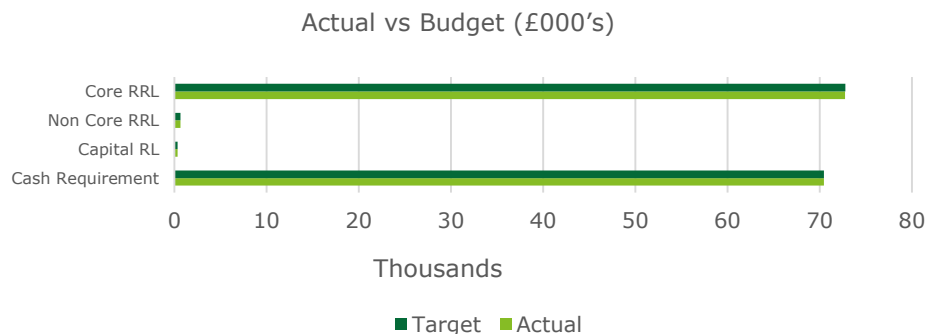


### Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with other bodies in our portfolio, we do not consider this to be a significant risk for Public Health Scotland as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that PHS could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the 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. 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 and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government (which are illustrated in the graph below). 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 Public Health Scotland by the Scottish Government;
- Perform focused testing of accruals and prepayments made at the year end; and
- Perform 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.

Based on our testing to date, we confirm that PHS has performed within the limits set by Scottish Government Health and Social Care Directorate and therefore is in compliance with the financial targets in the year.

# Significant risks (continued)

## Management override of controls



### Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent Annual Report and Accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



### Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

#### Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

### Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

### 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.

#### Deloitte view

We have not identified any instances of management override of controls and our testing in this area is satisfactory.

# Significant risks (continued)

## Management override of controls (continued)

**Key estimates and judgements** The key estimates and judgments in the Annual Report and Accounts includes those which we have selected to be significant audit risks around expenditure recognition (see page 10). This is inherently the area in which management has the potential to use their judgement to influence the Annual Report and Accounts. 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	Employing health bodies in Scotland are responsible for meeting medical negligence costs up to a threshold per claim. Costs above this threshold are reimbursed to boards from a central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government. As at 31 March 2021 there were no claims specific to PHS.	<p>The provision for PHS’s share of the national liability is calculated by the Scottish Government based on information from the CLO in relation to all Boards. We have received direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We have received assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO.</p>
Injury Benefit Provision	PHS 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>

# Other significant findings

## Internal control

During the course of our audit we have identified one internal control finding, which we have included below for information.

Area	Observation	Priority
<i>Internal Control: Electronic Journal Approval Limit</i>	Although the NSS management accounting team have put in place a manual compensating control this could be circumvented more easily than a system approval limit. During our audit, we identified that the electronic journal approval limit within eFinancials is £50m which is too high in comparison to PHS level of income and expenditure. Although we note only one individual posted journals to this level. See page 53 for further details.	●
<i>Internal Control: Management Review of Accounts</i>	Throughout the audit, disclosure deficiencies were identified in relation to both the performance report and the remuneration and staff report disclosures. These could have been prevented through a more in-depth management review, where by errors of this nature could have been identified prior to the audit, reducing the requirements for corrections to be made and increasing the efficiency of the audit for both PHS and Deloitte. We have made corresponding recommendations for improvement on page 53. Planning in relation to the preparation of the accounts and associated reviews was not robust enough which has meant the Annual Report and Accounts were not available in line with the agreed deadline. There were some items delayed from Scottish Government which were outside of PHS control.	●
<i>Internal Control: Purchase Orders</i>	During the audit, our testing identified that in a few instances a purchase order had been raised after the service had been provided. This is not best practice and could mean that management information regarding committed resources is incomplete.	●

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

# Other significant findings

## Financial reporting findings

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

### Qualitative aspects of your accounting practices:

Following updates processed by management, PHS's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual ('the FReM'). Following our audit work, we are satisfied that the accounting policies are appropriate.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the assessment and disclosure of significant judgements and estimates.

### 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.

We will obtain written representations from PHS 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**

Our opinion on the financial statements is expected to 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



### **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.

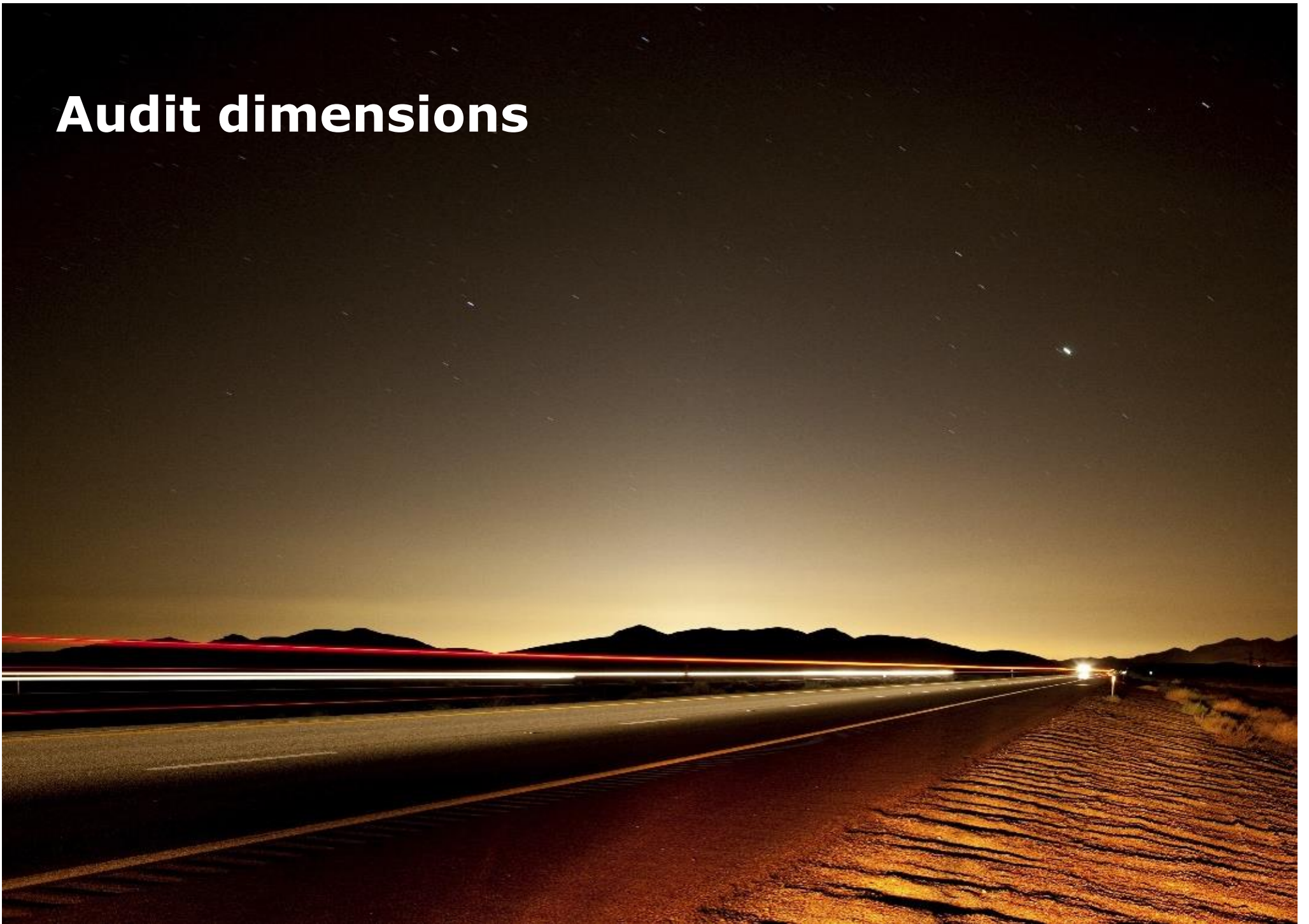
# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Board'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. No exceptions noted.</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. We have provided management with comments and suggested changes these have been processed by management. This includes additional disclosure on the impact of EU exit and climate change and the disclosure of key performance indicators.</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. No exceptions noted.</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. We provide management with comments and suggested changes and have received an updated version reflecting these changes.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that, following updates made by management, it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>The going concern disclosure and auditing requirements for NHS bodies have changed for 2020/21. In accordance with FReM, PHS has prepared its accounts on a going concern basis, applying the 'continuing provision of services' approach. Under this approach, the FReM indicate that the going concern assessment is not subject to material uncertainties, and no additional disclosures need to be considered.</p> <p>Under the 2020 revisions to Practice Note 10 "Audit of Financial Statements of Public Sector Bodies in the United Kingdom", our work has therefore focused upon confirming the use of the "continued provision of service" approach is appropriate. We have no matters to report in respect of this.</p> <p>PHS's arrangements to secure financial sustainability are considered as part of our audit dimensions work on pages 23-31.</p>



# Audit dimensions

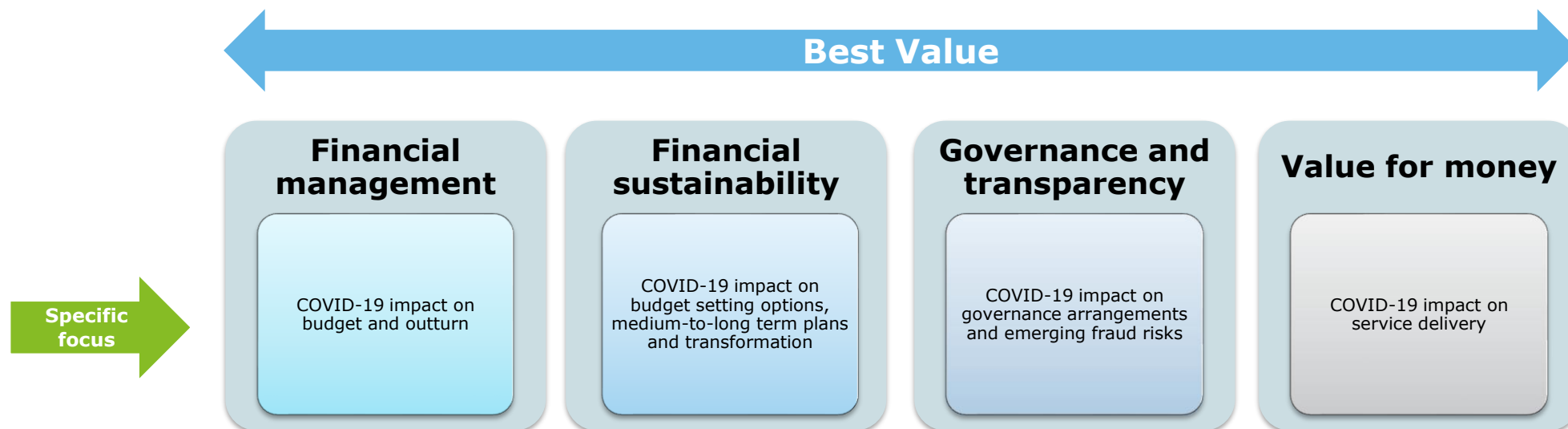


# Audit Dimensions

## Overview and Context

As set out in our audit plan, public audit in Scotland is wider in scope than financial audits. This section of the report sets out our findings and conclusions on our audit work covering the areas set out below.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how PHS has responded to these risks.



PHS was established on 1 April 2020 in the midst of the COVID-19 pandemic. Its work throughout 2020/21 has played a critical public facing role to aid the Scottish Government and other partners in the country's response to the COVID-19 pandemic. This added significant complexity to the establishment of the new organisation. The ability of management and the Board to focus on establishing governance structures, setting their strategies and planning for the future were impacted by the need to respond to the COVID-19 pandemic, the 'first wave' of which was underway at the time PHS came into existence. PHS is commencing an organisational change programme which involves defining a new structure and implementing it during 2021/22.

Our work and the conclusions within this report should be viewed in the context noted above. Our work in 2020/21 has enabled us to form a view of PHS's baseline position and management should use this to drive continuous improvement. We will use this baseline in future audits to assess performance and in particular inform our assessment in relation to Best Value.

# Financial management

**Financial management** is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we highlighted the following risk:

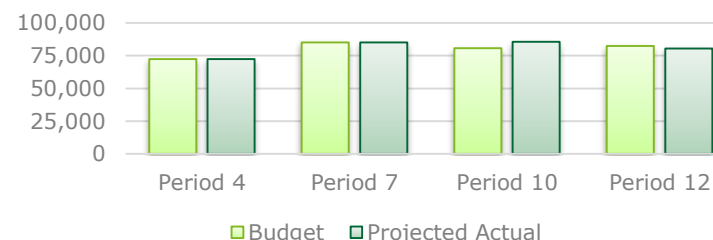
*“Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal control change. In accordance with Audit Scotland planning guidance, we will consider fraud as a particular focus area in 2020/21.*”

*PHS has outsourced its finance function to National Services Scotland (‘NSS’). There have been some changes to this arrangement due to staff absence. In January 2021, NSS took over the entire function. There is a risk that the initial lack of clarity over roles and responsibilities and the consequence of this on financial capacity will impact on PHS’s ability to demonstrate effective financial management.”*

## Current year financial performance

The opening PHS budget was agreed by the predecessor organisations with the PHS Sponsor Team prior to the inception of the organisation, totalling £72m. The budget was updated throughout the year based on additional allocations from Scottish Government, and in particular additional funding to manage the impact of COVID-19.

**Budget performance (£'000)**



The additional funding for COVID-19 was to offset additional COVID-19 related costs, with the ‘net impact’ of COVID-19 on PHS being £nil in 2020/21, as funding was provided by the Scottish Government across the NHS to fully fund COVID-19 related costs.

The net expenditure budgeted at the end of the year was £82.397m. The outturn reported is £82.372m, representing an underspend of £25k (0.03%). The position was reported to the FARC on a quarterly basis throughout the year.

# Financial management (continued)

## Current year financial performance (continued)

The year-end position differs significantly from the original budgeted position, although the context for this is important. The key reasons for variances include:

- £11m of additional COVID-19 funding for COVID-19 specific projects;
- £2m underspend on non-pay expenditure based on cost savings from working from home and lower than expected use of consultants; and
- £2m underachievement of income generation from NHS Boards and other sources due to a change in priorities in response to COVID-19.

As is evident from the above, all variances noted have been impacted by the decisions taken in relation to what work was undertaken, prioritising COVID-19 projects. These variances were by their nature unforeseen at the time of the development of the original budget and demonstrate a robust budget setting process.

PHS has had effective financial planning and management arrangements in place for 2020/21. Reporting to the FARC has been clear and consistent throughout the year. COVID-19 has had a significant impact on the organisation, with the original budget set for the organisation quickly being outdated. Changes to the budget were effectively monitored and reported throughout the year to account for the impact of COVID-19 and changing priorities.

## Savings Plans

The 2020/21 budget included a need to make savings of £2.395m, which represented 5% of baseline funding. Progress against this target was closely monitored and reported to the FARC through financial performance reports using a red, amber, green ('RAG') system.

The final outturn reported that £2.395m (100%) of the targeted savings were achieved. All savings related to vacancies managed within the organisation during 2020/21, which represent non-recurring savings. It is recognised by management that this is a blunt instrument and care should be taken to ensure that vacancy management aligns with the Strategic Plan, Workforce Plan and ongoing organisational change activity.

PHS set an ambitious savings target for 2020/21, representing 5% of baseline funding (higher than the Scottish Government's public-sector wide 3% target). Delivery of the target was effectively monitored throughout the year and PHS achieved 100% of the savings targeted, which is to be commended. However, enhancing the approach to identification and delivery of savings to move from a reliance on non-recurring to recurring savings is key to demonstrating longer-term financial sustainability. PHS is aware of this and expects that its ongoing work on organisational change and transformation will enable PHS to identify the potential areas where recurring savings can be made.

## Financial reporting

The PHS 2020/21 opening budget was agreed by the PHS Sponsor Team in February 2020. The Board approved the budget on 20 May 2020 with the caveat that it was a pre-pandemic budget and significant work was ongoing to update it. A revised budget was not presented and approved by the Board. The amendments to the budget were captured and managed through Financial Performance Returns ('FPR's') during the year. The Senior Leadership Team ('SLT') and Board Members regularly reviewed progress against the budget throughout the year, with reporting to the FARC at every meeting through FPR's. From review of the reporting throughout the year, we noted that variances are clearly reported and explained. PHS has strong financial management arrangements in place, with timely reporting.

# Financial management (continued)

## Financial capacity

PHS has a Service Level Agreement ('SLA') in place with NHS National Services Scotland ('NSS') being responsible for the operational finance function. While an SLA has been put in place there have been changes during the year, including to the allocation of roles and responsibilities between PHS and NSS.

On establishment, PHS TUPE'd across a Head of Finance from a predecessor body although they were absent for the majority of 2020/21. PHS decided that a dedicated position within the organisation was not required – given the accounting qualifications required by the Director of Strategic Planning and Performance post - and that an expansion of the SLA with NSS could provide a number of the functions previously assigned to the Head of Finance. This has meant that NSS have taken a greater role than originally envisaged when PHS was established. Although the relationship with NSS has been on a journey throughout 2020/21, and understanding of how this works is improving, we noted from our work there remains some uncertainty within the organisation as to the delineation of roles between PHS and NSS across the range of services provided.

PHS has been heavily involved in the response to COVID-19, and is in the midst of significant organisational change due to it being established in 2020/21. Given this and the changes in the finance function and the SLA, there is a risk that PHS as an organisation does not have sufficient strategic financial capacity to deliver everything required, as the role is combined with other responsibilities in the SLT currently.

PHS has entered into an SLA to ensure that it has sufficient operational financial capacity. The use of the SLA has evolved in the year, and there is some uncertainty over the allocation of roles between PHS and NSS. There should be reporting to the FARC to set out the roles and responsibilities in operation, and what further developments are seen as being needed in this SLA (for both financial services and more generally), with plans to address these set out. **[Recommendation 1.1]**

## Internal audit

The 2020/21 Internal Audit Plan was approved by the FARC in October 2020. This comprised 4 projects across 40 audit days for the year. PHS accepted that the Internal Audit Plan in 2020/21 would be a reduced plan, covering minimum requirements, in light of it being PHS's first year in operation, the impact of COVID-19, and the consequent delays in starting the internal audit work in the year. Internal audit has confirmed that it has completed sufficient work to inform its annual opinion for the Annual Governance Statement.

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.

## Standards of conduct for prevention and detection of fraud and error

We have assessed the PHS's arrangements for prevention and detection of fraud and irregularities. This has included specific considerations in response to the increased risk of fraud as a result of COVID-19. Overall we found the arrangements to be to be designed and implemented appropriately.

PHS has appointed a counter-fraud champion and continue to work with NSS and Counter-Fraud Services to roll out training for staff and Board Members.

Our responsibilities under International Standards on Auditing have changed in the year and require specific reporting on irregularities. We will therefore continue to monitor the effectiveness of PHS's arrangements in place ensuring they are designed and implemented effectively, and will report on this in our independent auditor's report in the Annual Report and Annual Accounts.

# Financial management (continued)

## Deloitte view – Financial management

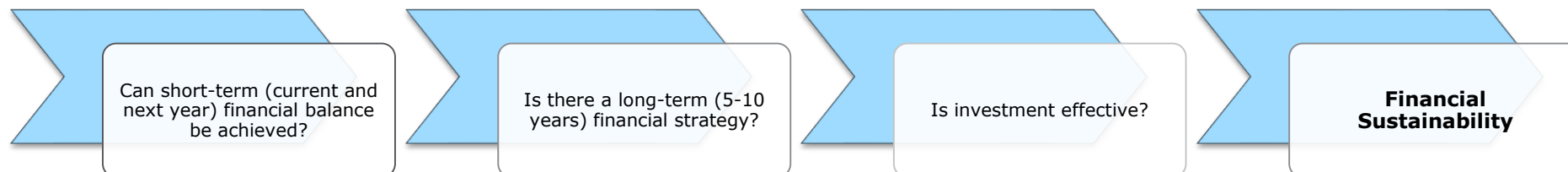
PHS has established strong financial management arrangements during 2020/21 with timely financial reporting. There were significant changes to its budget throughout the year due to COVID-19. All savings were achieved through vacancy management which management recognise is not sustainable for the medium to long-term.

PHS has entered into an SLA to ensure that it has sufficient operational financial capacity. The use of the SLA has evolved in the year, and there remains some uncertainty over the allocation of roles between PHS and NSS. There should be reporting to the FARC to set out the roles and responsibilities in operation, and what further developments are seen as being needed in this SLA (for both financial services and more generally), with plans to address these set out.

Internal audit has confirmed that it has completed sufficient work to inform its annual opinion for the Annual Governance Statement.

# 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.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

*“PHS was created this year using the NHS model of funding with a baseline funding level determined prior to inception based on submissions from predecessor bodies’ budgets. In year allocations of funding have increased significantly by c£15m due to the COVID-19 response.*

*There is a risk that the baseline level of funding is not sufficient to meet the long term needs of the organisation. The COVID-19 response is likely to continue in the medium to longer term and the pandemic has had a significant impact on public health measures. There is a significant risk that robust long-term planning arrangements are not in place to ensure that the body can manage its finances sustainably, deliver services effectively, identify issues and challenges early and act on them promptly.*

*The PHS workforce consists mainly of staff from predecessor bodies. As the pandemic hit when PHS came into being, the ability to integrate and embed teams has been impacted. PHS do not currently have a workforce plan although they are taking steps to review the structure of the organisation. There is a risk that the workforce does not have skills, structure and resources required to achieve its aims.*

*Based on PHS’s own assessment it has determined that significant investment is required to transform the organisation. The transformation plan is a good first step but we recognise that the pandemic will have an impact on the implementation.”*

## Budget setting

The Board approved a balanced budget of £94m for 2021/22 on 1 April 2021. This incorporated a savings targets of £3.1m (3%). All savings are planned to be delivered through vacancy management, which is the same approach as 2020/21. The level of savings required – as a percentage of baseline funding – is lower than in 2020/21, and PHS has now demonstrated an ability to achieve savings through this approach.

Although the Board approved the budget, it was highlighted that the budget will fluctuate as PHS progresses through organisational change activity and aligns the budget to strategic objectives. This necessarily means that financial planning is in a state of flux for 2021/22 and beyond.

The non-pay budget has been reduced to match the income budget. All non-pay requests are required to be submitted for review to directors and approval will be based on Delivery Plan priorities and available budget in consultation with the responsible finance officer.

# Financial sustainability (continued)

## Budget setting (continued)

COVID-19 has had a significant impact on the budget presented, with significant additional funding budgeted based on bids to the Scottish Government. Going forward, the performance and financial review of the COVID-19 response will be carried out across directorates to understand in-year as well as future resource requirements. The Scottish Government has yet to confirm the levels of funding available to PHS for COVID-19 in 2021/22 and beyond.

The UK's exit from the EU has not been included as a consideration within the budget paper. It is therefore unclear what if any impact this is expected to have on the organisation although management consider it is unlikely to have a significant impact on PHS.

Board members and the FARC were involved in the budget process at the final stages, after the budget had been agreed by management. There was no opportunity for the Board to direct the focus of the budget during the early stages of preparation, which is considered best practice. Board Members should be involved in identifying the priorities for the use of resources as well as the evaluation of budget options rather than only one option being on the table. Early engagement is key and the establishment of a formal approach to budget setting would help to embed this within PHS.

PHS achieved the savings target based on vacancies during 2020/21 and has set an increased target of £3.1m in 2021/22, although this does represent a decrease as a percentage of PHS's baseline funding. However, given the state of flux in the organisation as it develops organisational change activity and the remobilisation of some work which has been paused, there is a risk that the savings may not be achieved.

There was no wider stakeholder engagement on the budget for 2021/22. Engagement took place with the Board and Sponsor Team with limited consultation outside these forums.

In setting its budget, PHS recognised that, whilst projecting to achieve short-term financial balance, a number of risks exist, including:.

- Ensuring affordability and prioritisation of PHS's transformation plan in order to maximise service improvement and delivery of its strategy;
- Ensuring affordability of workforce plans and organisational change and that they reflect and support the strategic intent from transforming PHS's services;
- Rigorous control and challenge of discretionary spend in order to reinvest in services; and
- Ensuring PHS's income strategy is robust and achievable in order to mitigate deficits.

The impact of COVID-19 presents a risk to the ability of PHS to achieve short-term financial balance. While PHS has robust processes in place for budget setting and has demonstrated an ability to deliver savings through vacancy management, the risks due to COVID-19 and additional Scottish Government funding mean that there is continued significant risk of not achieving short-term financial balance.

We have not identified any significant concerns with the budget setting process. However, Board Member and FARC involvement in setting the budget should be improved going forward, with this wider engagement at an early stage being embedded in a formal budget setting process. PHS should also consider how it engages with other key stakeholders as appropriate. Bearing in mind that 2020/21 was an exceptional year due to COVID-19 and being PHS's first year of operation, we accept that this was not realistically achievable in 2020/21. **[Recommendation 2.1]**



# Financial sustainability (continued)

## Medium-to long-term financial planning

Under normal circumstances, the Scottish Government require Health Boards to demonstrate financial balance over a medium-term three-year period, via submission of a three-year financial plan. This requirement has been put on hold for 2021/22 due to the impact of COVID-19, therefore a one-year AOP, including a financial plan, is required for 2021/22. Despite this, a 3-year financial plan was approved by the Board on 1 April 2021 which is a positive step. The cumulative financial gap over the period to 31 March 2024 is £9.4m (12.6%). As noted on page 23, there are a number of ongoing work programmes and uncertainties impacting PHS which mean that financial planning is in a state of flux and significant changes should be anticipated to the financial gap identified as these programmes develop and the uncertainties are resolved.

The key assumptions included in the 3-year financial plan are:

- Baseline income uplift of 1.5%;
- £1m organisational change funding;
- Capital budget of £1.1m;
- Pay inflation of 1% (1.8% assumed in the plan to reflect scale increment). Scottish Government have assured Boards that any further impact for all NHS staff will be fully funded; and
- COVID-19 requirements will be fully funded.

Key challenges highlighted in the 3-year financial plan include:

- Workforce planning and organisational change redefining the organisation's structure;
- Cash Releasing Efficiency Savings ('CRES') targets which are planned to come from vacancies;
- Non-recurring funding streams with related recurring costs
- COVID-19 pressures; and
- PHS transformation plan currently in the define/design stage.

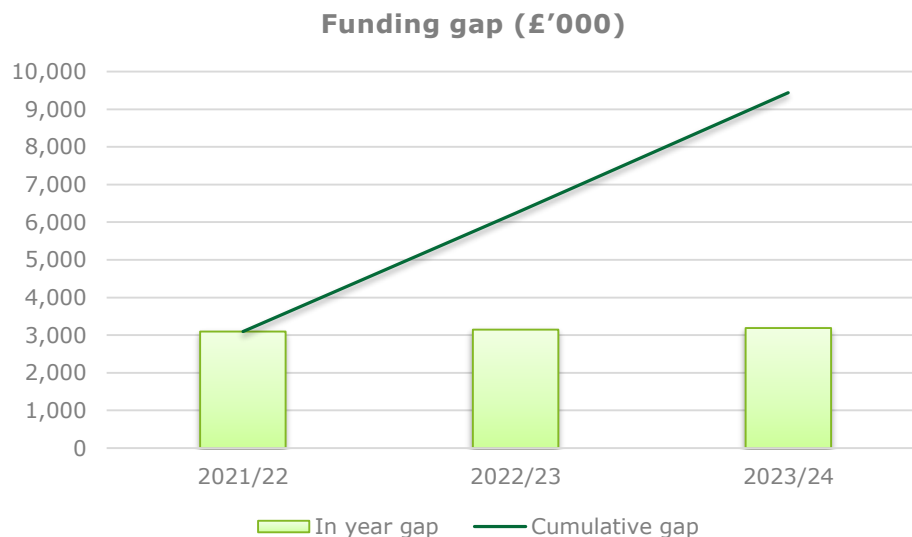
COVID-19 has had a significant impact of the financial planning of the organisation. It represents 24% of the budget for 2021/22 and contributes to the uncertainty in relation to longer-term financial planning.

PHS has ongoing organisational change which will affect the workforce planning currently in place. This creates a key risk to financial sustainability given that staff costs represent 78% of PHS's expenditure. Coupled with this is the risk posed by non-recurring funding being used to match recurring costs. 18% of Scottish Government income is forecast to be non-recurring by 2023/24.

The funding gap of £9.4m is expected to be addressed by the achievement of savings and in 2021/22 these are expected to be delivered through vacancy management. From 2022/23 there are currently no detailed plans in place to achieve savings required to address the anticipated funding gap.

Similar to the 2021/22 budget, the UK's exit from the EU has not been considered in the 3-year financial plan and management do not view this as a significant risk.

PHS do not have any long-term financial planning in place which is consistent with our expectations for the sector.



# Financial sustainability (continued)

## Medium-to long-term financial planning (continued)

### Strategic Plan

The Strategic Plan is the medium to longer-term planning for PHS and is closely aligned to the financial planning. The Strategic Plan was approved in September 2020 and sets out the key priorities for the organisation covering the period 2020-23.

The use of appendices to provide further detail on why PHS has identified the four areas as priorities and further detail on what PHS can do is useful. Including this information enables readers to delve deeper into the detail if they wish without having to go through lots of information in the main plan to identify key matters.

Given the significant uncertainty affecting PHS, including the ongoing impact of COVID-19, the organisational change underway and the early stages of PHS's operations, it is not possible for us to conclude at this stage as to whether PHS is in a financially sustainable position for the medium to longer-term.

It is positive to note that an initial 3-year financial plan has been prepared despite not being specifically requested by the Scottish Government. In the interests of demonstrating continuous improvement, improvements to the 3-year financial plan should be made to address the following:

- It covers the period to 2022/23 only, which is at the lower end of what would be expected for a medium-term plan;
- The plan does not include any scenario analysis in its final form (although we note that it was included in the initial draft);
- There is no clear link to the Annual Delivery Plan or to how the resources and workforce of the organisation will be used over the medium-term to drive progress against PHS's priorities; and
- There is no link with the Workforce Plan (as the Workforce Plan did not exist when the financial plan was approved).

The new organisational structure, Workforce Plan, Transformation Strategy, Strategic Plan and Financial Plan should all be clearly aligned once completed. Adopting this approach will enable PHS to demonstrate how it expects to achieve financial sustainability over the medium-term and use the resources available to it to deliver the desired outcomes in line with the Strategic Plan.



The Strategic Plan clearly links to the National Performance Framework, identifying specific indicators it contributes to. It highlights Scotland's priorities for public health and how PHS's priorities align with those. It further links the priorities to the organisation's values. The alignment and linkage throughout is in line with best practice.

# Financial sustainability (continued)

## Transformation Plan

PHS approved a Transformation Plan in January 2021 which covers the period to March 2023 and the Transformation Oversight Group ('TOG') has been set up to provide governance for the plan.

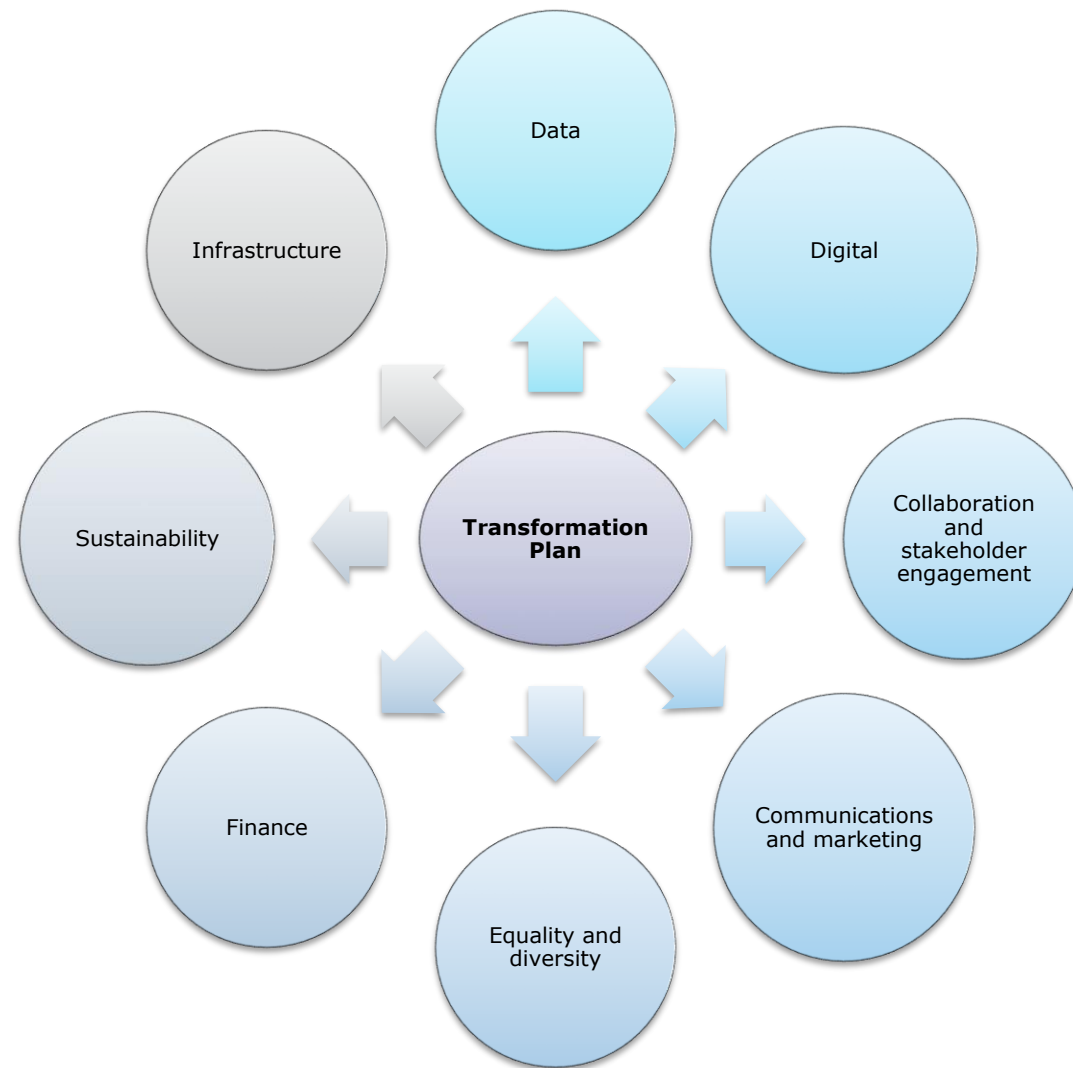
The Transformation Plan contains a significant number of activities, as set out in the infographic across.

Each heading has actions with specified due dates ranging up to April 2022 with some ongoing actions. The Transformation Plan includes enabling activities – such as the development of a 3-year Financial Plan – which is not in itself transformational, but will enable PHS to plan and deliver transformational change. It is important that as the Transformation Plan is delivered, PHS ensures through its governance structures that the activities being delivered are delivering the change identified, rather than simply enabling it.

It is unclear from the Transformation Plan how success will be measured, as currently there are no key performance or success indicators to meet, aligned to the actions.

Although at an early stage, some of the target dates set in January 2021 have been pushed back. PHS and the TOG are aware of the need to ensure that the delivery dates set are realistic, particularly given the competing priorities the organisation is currently facing. This is monitored on an ongoing basis.

There is currently no investment funding, associated savings or performance improvements assigned to actions as part of the Transformation Plan or updates submitted to the Board. However, there is organisational change funding available from Scottish Government which can be used to support the organisational change programme and transformation plan.



# Financial sustainability (continued)

## Transformation Plan (continued)

PHS has set up a change management team to provide support to the transformation team at a corporate level. It is positive that the organisation has recognised the importance of this type of support to enable transformation. We understand there is further work to be completed to standardise the project management approach across the organisation and increase project management resources within project delivery teams. PHS has set up a significant amount in 2020/21 despite resource pressures and competing priorities for the team.

At present there has been limited Board involvement in transformation work. This is partially due to the early stages of development and design that the transformation plan is in. The Board received an initial update on transformation in February 2021.

As part of their Transformation Plan, PHS approved their Digital Strategy in April 2021. It is a comprehensive strategy. Management are aware of the need, as set out within the Strategy, to identify the financial investment required and define performance indicators. Work has been undertaken with the Board in May 2021 to progress these areas.

The organisational set up including the development of the Transformation Plan have been significantly affected by COVID-19. As noted on page 27, the Transformation Plan was approved in January 2021. The organisational change plan which was due to be developed and implemented in 2020/21 has not yet been finalised.

PHS has published a remobilisation plan for previously paused services. Engagement has been with the Sponsor Team regarding which services should be restarted alongside PHS's ongoing pandemic response activities. We would normally see this engagement with the Board determining services to be restarted and once approved at a board meeting submitted to the Sponsor Team.

We do recognise the good relationship that has been developed with the Sponsor Team during the year. There has been limited stakeholder engagement outside of the Sponsor Team during 2020/21. PHS has, as expected, acted as a leader in the response to the COVID-19 pandemic and has been regularly quoted in the media and involved in media discussions in this area. Leaders within the organisation have provided regular updates to staff and promoted wellbeing on a cross-organisational basis.

The Board approved a Transformation Plan in January 2021. It is important that as the Transformation Plan is developed and progresses, that there is sufficient Board involvement in the transformation process.

Work is needed to develop key performance or success indicators for the actions underpinning the Transformation Plan. These should include qualitative considerations – for example a plan has been published, but has it included x, y and z in line with best practice.

PHS has a degree of project management support to progress the Transformation Plan. However, it is too early to say based on the evidence available whether PHS has the necessary skills and capacity to deliver transformation. Management are aware of the need to reassess capacity to deliver projects on an ongoing basis. A comprehensive benefits tracker therefore should be considered to capture all the data required to demonstrate whether the intended outcomes of each project have been achieved, beyond the financial savings.

In recognition of the significant impact of COVID-19 on PHS, it is positive to note that the development of a remobilisation plan is underway. PHS should ensure that the remobilisation plan aligns with transformational activity. It is important that as PHS progresses with remobilisation, the finalisation of an organisational change plan and the implementation of transformational change, that PHS gives consideration to consultation with wider stakeholders beyond the Board and Sponsor Division.

# Financial sustainability (continued)

## Workforce Planning

Strategic planning, financial planning and workforce planning are intrinsically linked and critical to the future success of any organisation. Given staff and staff related costs account for over 70% of the overall annual budget, planning and managing workforce is essential to the overall process.

PHS has developed a Workforce Plan that is designed to cover 2020/21. While workforce planning should cover the medium-term position, PHS has developed a one-year plan as it is currently undergoing an organisational structure review and developing a plan beyond that point would not currently be feasible.

The current workforce is defined with key workforce statistics included and referenced throughout the plan as required. The Workforce Plan does not currently identify the key skills of the workforce, or where gaps in skills required and skills held exist.

The future workforce is not yet defined and this is due to the ongoing organisational change activity which has not yet defined the required structure for the organisation.

There are a significant number of actions included within the plan however the following items are disclosed as still to be included:

- Monitoring arrangements for the Workforce Plan;
- Governance arrangements;
- Summary action plan;
- Financial implications linking to the Financial Plan; and
- Risks.

PHS conducted a wellbeing staff survey in August 2020 on the impact of COVID-19. 61% of PHS staff responded which is a good level of uptake in comparison to other staff surveys we have reviewed in the public sector.

On mental health, 61% said that working from home has had both a positive and negative impact. In terms of work life balance, staff were split with 41% saying it had a negative effect and 48% saying it had a positive effect. 61% of staff would like to continue working from home in future with 17% preferring to return to the office. 97% of respondents said they could easily communicate with their manager. This is good in comparison to other staff surveys we have reviewed in the public sector.

PHS are running a follow up survey during May 2021 to utilise as part of their future of work considerations. PHS should consider the new frontiers report by Scottish Futures Trust (page 48) when considering its approach to return to offices and the 'new normal' way of working.

Compliance with requirements to complete mandatory training courses is currently at 40%. Mandatory courses included information and governance; workplace safety; fire safety; manual handling; fraud, and freedom of information. Further training courses are still to be launched, including on risk management, equality and diversity, and Standing Financial Instructions.

The level of completion of these mandatory courses is low and represents a risk to the organisation but is likely due to being a new organisation responding to COVID-19. Management are intending to increase the communications in this area.

There is also a low level of compliance with conducting appraisals, preparing personal development plans and setting objectives. Compliance in these areas is currently at 54%. PHS is currently developing a communications plan for this process in 2021/22, ensuring a shared timescale for all staff aligned with its business planning, whereas previously staff from different organisations worked on different cycles.

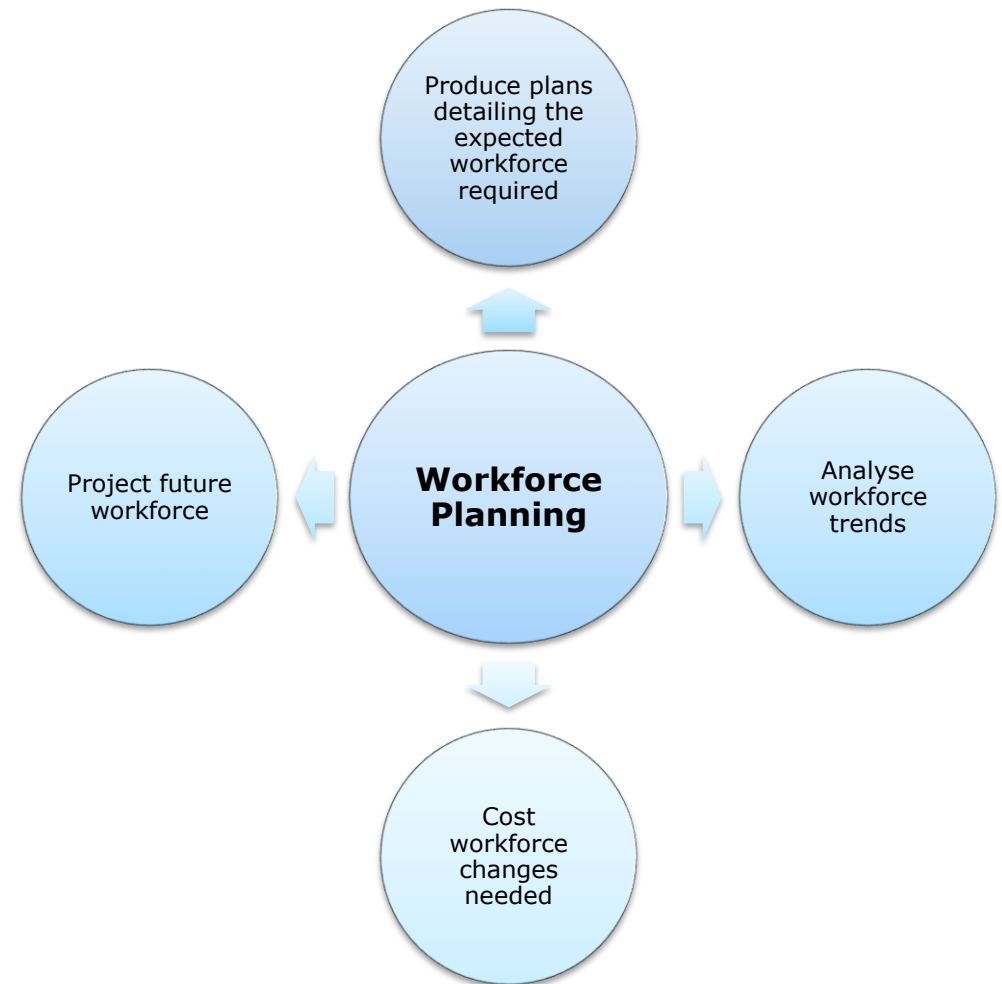
# Financial sustainability (continued)

## Workforce Planning (continued)

Sickness absence is 2.1% and turnover is 7.3%. Sickness absence is below the Scottish Government target and turnover is at a low level. This is consistent with other national boards.

The development of a Workforce Plan by PHS is welcome. As the future organisational structure becomes clearer, the Workforce Plan should be reviewed to ensure it covers the medium-term, and includes good practice as set out in Audit Scotland's report on NHS Workforce Planning.

The low level of compliance with key personnel performance management – objectives, appraisals and personal development plans – and with the completion of mandatory courses poses a risk to the organisation and suggests that monitoring of these areas requires improvement. This has likely occurred due to the set up of the new organisation and responding to COVID-19 PHS is aware of the need to address these areas and has put plans in place. Effective monitoring of the impact of the actions taken will be key to ensuring that any risk is mitigated.



Source: NHS Workforce Planning, Audit Scotland

## Financial sustainability (continued)

### Deloitte view – Financial sustainability

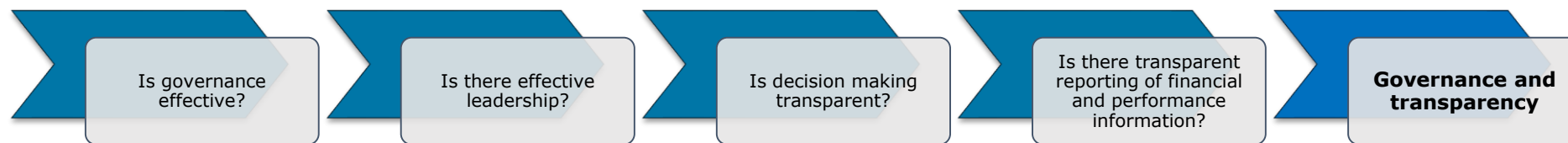
As discussed on page 9, PHS has achieved short-term financial balance in 2020/21. The Board approved a balanced budget of £94m for 2021/22 on 1 April 2021. This incorporated a savings targets of £3.1m (3%). All savings are planned to be delivered through vacancy management, which is the same approach as 2020/21. Given the significant uncertainty affecting PHS, including the ongoing impact of COVID-19, the organisational change underway and the early stages of PHS's operations, it is not possible for us to conclude at this stage as to whether PHS is in a financially sustainable position in the medium to longer-term. It is positive to note that an initial 3-year financial plan has been prepared.

The Board approved a Transformation Plan in January 2021. It is important that as the Transformation Plan is developed and progresses, that there is sufficient Board involvement in the transformation process. PHS has a degree of project management support to progress the Transformation Plan. However, it is too early to say based on the evidence available whether PHS has the necessary skills and capacity to deliver transformation. Management are aware of the need to reassess capacity to deliver projects on an ongoing basis.

The development of a Workforce Plan by PHS is welcome. As the future organisational structure becomes clearer, the Workforce Plan should be reviewed to ensure it covers the medium-term, and includes good practice as set out in Audit Scotland's report on NHS Workforce Planning.

# Governance and transparency

**Governance and transparency** is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



## Areas considered

Our approach to the audit dimensions is risk focused. In our audit plan we highlighted the following risk:

*“As PHS came into being from 1 April 2020 and the Board was appointed at that date - during the pandemic - there is a risk that governance arrangements were not designed for the situation it has faced and therefore the changes made as a result of the pandemic may not be effective or appropriate. The Board and its committees have continued to meet virtually since the start of the pandemic.*

*Given PHS’s role in the pandemic, there is an increased workload compared to that originally envisaged for senior management and the Board. Without appropriate prioritisation there is a risk that there is insufficient capacity at both management and Board level to deliver outcomes effectively.*

*While risk management processes are in place, the likelihood and impact of existing risks and the emergence of new risks will need to be monitored carefully. There is a risk that senior management and Committee members have not considered how sustainable changes to the risk appetite will be in the longer term.”*

## Leadership

The Senior Leadership Team (‘SLT’) have been recruited from a combination of local authority and NHS backgrounds, reflecting the setup of the organisation. Given the high-profile nature of the organisation and the involvement in key pandemic response activity there have been capacity constraints during the year. This has meant that, understandably, workstreams have had to be prioritised and the SLT have worked together to achieve this.

All staff have been provided with an induction which is mandatory. This was a combination of online learning and a face to face virtual meeting. At least one director attends all of these sessions. There have been various additional sessions held in relation to remote working, new systems and leadership expectations throughout the year.

PHS has set up a leadership programme to develop and support the leaders within the organisation, particularly within the levels below the SLT.

Board Members have been through the Scottish Government induction process, completed a PHS-specific session and been able to review PHS’s establishing documentation. They have been provided with support from the Interim Chair via one-to-one meetings throughout the year. The Interim Chair is beginning the process of annual reviews with Board Members which will identify any support or training required. Given the timing, there is currently no formal training programme for Board Members. The Chair was appointed on an interim basis to provide support for the set up of the organisation the process has begun to appoint a permanent Chair.



# Governance and transparency (continued)

## Leadership (continued)

PHS has been formed from two predecessor organisations with different embedded cultures within each. The challenge for the organisation is to create a PHS culture and embed this in a remote working environment.

Engagement sessions were held pre-pandemic with staff from predecessor organisations which aided the transition to PHS. Senior leadership are confident in the work completed to date which has identified PHS's values. They are also aware that it takes time for staff to identify as 'one PHS' and there are further activities planned to continue developing the PHS culture and the 'one team' approach.

It was not clear what Board Member involvement in the staff engagement or wellbeing sessions there has been. Board Members are key figures in the leadership of the organisation, particularly in relation to the organisation's culture. We identified that there was some confusion as to sessions which Board Members should have been invited to and whether they received the appropriate invite.

PHS has strong leadership in place both at SLT and Board level, and both have provided effective and appropriate leadership to the organisation. This has been particularly evident in the establishment of PHS and in the response to the COVID-19 pandemic. Board Members, SLT and staff have received appropriate support and training on induction. PHS has put in place the foundations for a positive culture and completed activities to bring the two legacy organisations together.

It is positive to note that there has been PHS-specific training and one-to-one support provided to Board Members to enable them to effectively deliver their functions. Following the completion of the annual review process, PHS should ensure that there is a training plan developed for the Board to address any areas of concern, and to ensure that any identified skills-gaps at a Board level are addressed.

### **[Recommendation 3.1]**

## Governance and scrutiny arrangements

The governance structure is set out in four main documents:

- Standing Orders;
- Standing Financial Instructions;
- PHS Code of Conduct; and
- Committee Terms of Reference.

The Standing Orders helpfully set out which items are reserved for the Board and. Both the Standing Orders and Standing Financial Instructions are consistent with other NHS bodies.

We have reviewed the PHS Code of Conduct and the Terms of Reference of PHS's committees and noted that the Code of Conduct is based on and largely accords with the Model Code of Conduct. No significant gaps were identified in our review of the Terms of Reference.

The risk management approach has been developed throughout 2020/21. The Risk Management Approach document approved by FARC in November 2020 is comprehensive, clearly articulating appetite, scoring, reporting and roles and responsibilities. It also includes the risk governance arrangements which details which risks are reported to each committee and the frequency of reporting.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

As noted in the risk management update to the Board in February 2021, training for staff remained under development. There is a risk that although a framework has been set up it is not fully embedded within the organisation. From a review of the corporate risk register update to the Board, we identified that improvements could be made by providing further detail in the action plan and update on action plan columns. In particular, the risk register is missing a split between current mitigating actions and those which are in progress. The update on the action plan does not provide updates on all items within the action plan. We are aware that this is an area which management have plans to further develop. We understand internal audit are due to review the risk management report in detail.

As the Board and committees have been in operation for less than a year, a self-assessment has not yet been carried out. Self-assessments are key to ensuring that the Board and its committees are operating effectively.

The Board has held 5 development sessions during 2020/21 on a range of topics. These sessions can be useful – especially as a new Board – to inform Members and for the Board to develop its strategic thinking. Care should be taken that decisions are taken within the specified Board meetings rather than development sessions. A summary of the outcome of the development session could be recorded at a future Board meeting to ensure any scrutiny and challenge is appropriately recorded.

An important part of the governance structure is the conduct of Board and committee meetings. Attendance at FARC in 2020/21 is 91%. Attendance at other committees ranged from 83% to 96%. We have attended FARC meetings throughout the year and held discussions with Board Members. From this, we have identified an effective culture of scrutiny and challenge.

From our attendance at FARC, we noted that there is a risk that not all actions since the establishment of the Committee have been recorded. This means that there is a risk that follow-up actions and reporting may be incomplete. This could undermine the effectiveness of the governance of the Committee. FARC members have raised this concern and requested a review of the completeness of the action register.

Both the Board and the FARC have responded effectively to the risks posed by COVID-19. Given the significant impact of the pandemic on PHS during 2020/21, the risks posed by COVID-19 have been considered on an ongoing basis.

Overall, we are satisfied that PHS has effective governance and scrutiny arrangements in place, underpinned by clear governance documents and demonstrated through high attendance and effective scrutiny and challenge at Board and committee meetings.

Improvements to PHS's governance and scrutiny arrangements can be made through further developing risk management processes, establishing a programme of Board and committee self-assessment, summarising and reporting on 'key takeaways' from development sessions, and instituting a mechanism to ensure the completeness of Board and committee action logs and follow-up reporting on actions.

# Governance and transparency (continued)

## *Openness and transparency*

Openness and transparency is a continuous improvement journey and, due to the timing of its establishment, PHS are at the beginning of this journey. PHS has defined its values and is developing its culture (as discussed on page 33). PHS is currently in the process of developing its own approach to openness and transparency.

From our audit work, we identified a consensus that openness and transparency is an area for improvement for the organisation. The focus during the first year of PHS's existence has been to set up the organisation, and publishing information has been secondary to that. As a result of this, it is not immediately clear from the documents currently published on the website how the organisation conducts its business.

PHS publishes dates, agendas, papers and minutes for Board meetings on the website (although not always in advance). Currently, agendas and papers for other committees are not published.

On formation, PHS inherited multiple processes and systems for the publication of information, including a wide array of social media accounts and websites.

At present, there is a low level of information published on the website. Some examples which we would normally expect to see published include key governance documents and performance information. The information currently available does not enable scrutiny and challenge from the public and other external stakeholders.

Board meetings are not currently open to the public and have not been since the organisation's inception in April 2020. While this is due to the COVID-19 pandemic, there is a statement on the website that states meetings are open to the public which is misleading.

The Standing Orders state that Board meetings will be held in public. The Board have yet to consider a paper on options for public access in the virtual environment. There are a number of organisations across the public sector and in the NHS which are offering public access to virtual meetings via an invite link on the website, webcasting or uploading a recorded video to the website.

Allowing for the impact of COVID-19 and the establishment of PHS in the year, we understand why PHS is currently not as open and transparent as it could be. However, expectations on openness and transparency are constantly evolving and it is important that PHS keeps pace with this. From our discussions with the Board and management, there is an appreciation for this and a desire to be more open and transparent, with actions currently underway to deliver this.

To demonstrate continuous improvement in this area, PHS should conduct a review of its approach to openness and transparency – including public access to meetings, publication of information, and engagement with stakeholders – and report to the Board on where PHS currently sits, where it aims to be and how it plans to get there.

PHS should the review the report released by SOLACE on political governance arrangements across Scotland in reviewing its approach to allowing public access to Board meetings (although for Local Government the principals and options are similar across the public sector.)

## Governance and transparency (continued)

### *Deloitte view – Governance and transparency*

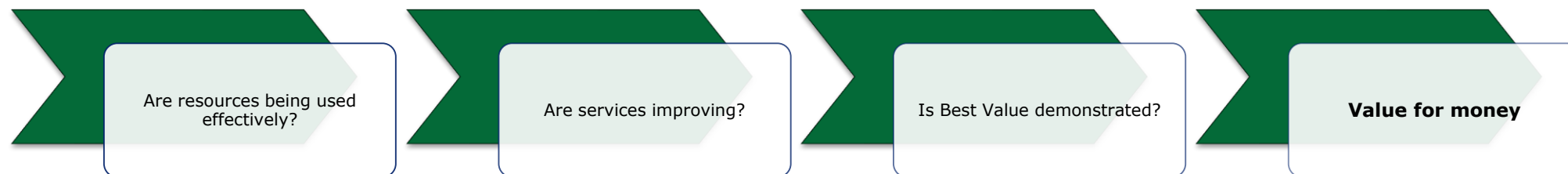
PHS has strong leadership in place at both SLT and Board level. This has been particularly evident in the establishment of PHS and in the response to the COVID-19 pandemic. Board Members, SLT and staff have received appropriate support and training on induction. PHS has put in place the foundations for a positive culture and completed activities to bring the two legacy organisations together.

PHS has effective governance and scrutiny arrangements in place, underpinned by clear governance documents and demonstrated through high attendance and effective scrutiny and challenge at Board and committee meetings.

Allowing for the impact of COVID-19 and the establishment of PHS in the year, we understand why PHS is currently not as open and transparent as it could be in relation to the publication of information. However, expectations on openness and transparency are constantly evolving and it is important that PHS keeps pace with this. From our discussions with the Board and management, there is an appreciation for this and a desire to be more open and transparent, with actions currently underway to deliver this.

# Value for money

*Value for money* is concerned with using resources effectively and continually improving services.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we highlighted the following risk:

*“Given the timing of the establishment of PHS and its need to focus on the COVID-19 response there is a risk that there have been delays to the development of the performance management framework. Without the establishment of clear KPIs for performance and the monitoring of delivery against those there is a risk PHS will be unable to demonstrate value for money or effective management of resources.”*

## Performance management framework

The measurement of performance is an important part of the management of all public services. Measuring activity is comparatively less complex than measuring outcomes. This is particularly the case for measuring the wellbeing of society or the quality of people’s lives. Nevertheless, there is a need to find ways of demonstrating that public money has been effectively used and that services are improving.

Performance management is defined as taking action in response to actual performance to make outcomes for users and the public better than they would otherwise be. Performance management is therefore an integral part of service delivery as it helps to plan, monitor and seek improvements.

A clear and robust performance management framework should be developed. PHS has not yet formulated a defined performance management framework. The performance reporting to date has not reflected the normal structure of reporting against the Annual Operating Plan which we see in other NHS bodies. This is understandable given the shift in the work originally intended to be carried out and what has actually been undertaken during 2020/21, due to the impact of COVID-19.

Performance reporting to date has focused on activity completed and is not sufficient for effective scrutiny and challenge by the Board of value for money or assessing continuous improvement. Management are aware of the need to develop performance reporting alongside the performance management framework.

# Value for money (continued)

## Performance management framework (continued)

In the year, performance management arrangements were limited to reporting on activity undertaken. PHS is currently working on improving performance reporting and establishing a defined framework. In developing these areas, PHS should ensure that they include, but are not limited to:

- Key performance indicators linked to the Strategic Plan and Annual Operating Plan;
- Measurement of outcomes against objectives set with clear criteria for success;
- Identification of which items are on track or those which require remedial action including the thresholds to determine categorisation within a RAG model;
- Identification of why performance is not as expected and actions required to improve where this is the case; and
- Highlights of where performance is exceeding expectations and best practice which could be applied across the organisation.

## Performance data

Performance reporting during the year has been focused on activity. Key activities include:

- PHS supported the contact tracing of 114,712 cases and contacted 438,685 people to self-isolate;
- there have been 14.3 million visits to the public facing COVID-19 dashboard;
- PHS supported 111 COVID-19 research projects;
- PHS enabled the roll-out of COVID-19 vaccinations in Scotland;
- PHS assisted health board and health and social care partnerships in their remobilisation planning; and
- PHS provided support to local Alcohol and Drug Partnerships through the deployment of the Drug and Alcohol Information System.

The impact of COVID-19 has been a significant feature of the performance reporting to the Board. The Q1 performance report focused on areas of work being completed as a result of the pandemic. The Q3 report did have a lesser degree of focus with some commentary on activity in relation to drug and alcohol deaths work undertaken. This is understandable given that in the early part of 2020/21 the activity undertaken by the organisation was almost solely COVID-19 related.

We recognise that the COVID-19 pandemic has had a significant impact on the organisation. While achievements have been recognised, it is important that the organisation is able to demonstrate its impact using performance reporting as a tool going forward. Performance data at present does not show how the organisation is performing and what impact it is having on public health inequalities in Scotland.

# Value for money (continued)

## Equalities

PHS has set their equality outcomes for 2021-2025 within the Equality Mainstreaming Report published in April 2021. Given that the outcomes have only recently been set, it is too early to assess progress against them. Each outcome does have associated indicators with specific actions against each. Workforce data is also included as an appendix for context which is helpful to anyone reviewing the policy document.

The main tool that PHS utilises to consider equalities is the Health Inequalities Impact Assessment. This is a legacy assessment system inherited from predecessor bodies which PHS has plans to review to ensure it remains fit for purpose for the new organisation. The assessment is applied to any new system launched.

## Deloitte view – Value for money

PHS has not yet formulated defined performance management arrangements. In the year, performance management reporting was limited to reporting on activity undertaken. PHS is currently working on improving performance reporting and establishing a defined framework.

We recognise that the COVID-19 pandemic has had a significant impact on the organisation. While achievements have been recognised, it is important that the organisation is able to demonstrate its impact using performance reporting as a tool going forward. Performance data at present does not show how the organisation is performing and what impact it is having on public health inequalities in Scotland.

PHS has recently set their equality outcomes and intends to review the Health Inequalities Impact Assessment process to ensure it remains fit for purpose for the new organisation.

# Best value

The Scottish Public Finance Manual ('SPFM') explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure *Best Value*.

## The duty of Best Value, as set out in the SPFM

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance.
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.

The SPFM sets out nine characteristics of Best Value which public bodies are expected to demonstrate. The refreshed guidance issued by the Scottish Government in 2011 focused on 5 generic themes and 2 cross-cutting themes, which now define the expectations placed on Accountable Officers by the duty of Best Value.

Five themes:

1. Vision and Leadership
2. Effective Partnerships
3. Governance and Accountability
4. Use of Resources
5. Performance Management

Cross-cutting themes:

1. Equality
2. Sustainability

## BV arrangements

PHS has a number of arrangements in place to secure best value. This is evidenced through the Strategic Plan and Performance Reporting during the year although this requires further development.

As noted elsewhere within this report, PHS has established a governance framework and strong leadership. Leadership have demonstrated their desire for continuous improvement.

PHS recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

## Deloitte view – Best Value

PHS has a clear understanding of areas which require further development. Our work in 2020/21 has enabled us to form a view as to PHS's baseline position, and we will use this to inform our assessment of continuous improvement going forward. At present, while PHS has a strong focus on continuous improvement, it is too early for us to conclude on the effectiveness of the structures developed and implementation of plans to deliver that improvement. The planned work for of PHS in its first year of operation has been significantly impacted by the COVID-19 pandemic.



# 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 FARC 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.
- Our internal control observations
- 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 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.

### 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.

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 | 10 June 2021

# Sector developments



# Digital transformation

## Shaping the future of European healthcare

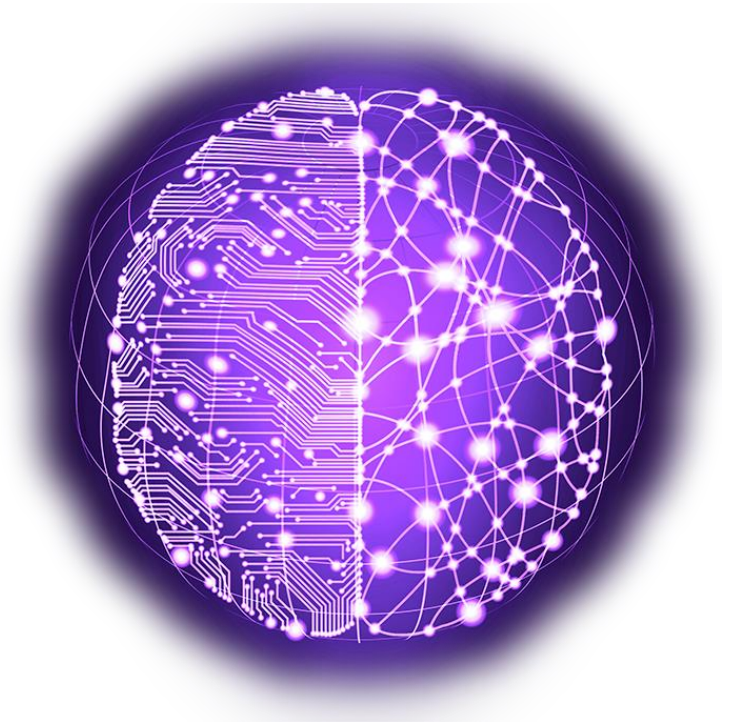
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### Background and overview

Digital technologies are crucial enablers for bridging the gap between demand for healthcare and the capacity of healthcare services to meet demand. Leveraging the opportunities and efficiencies offered by digital transformation is key for any organisation to remain viable and fit for the future, but for Europe's healthcare services, which are made up of multiple services and organisations, across a range of geographies and jurisdictions, the challenges and solutions are complex.

This is the third report from Deloitte UK's Centre for Health Solution's 'Shaping the future of healthcare' series. While our first two reports focused on the UK, this report surveyed 1,800 clinicians to explore the potential for digital transformation to address the current and future challenges facing healthcare systems in Europe.

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### Next steps

A summary of the key conclusions are provided on the following pages. The full report is available at [deloitte-uk-shaping-the-future-of-european-healthcare.pdf](https://www.deloitte-uk.com/shaping-the-future-of-european-healthcare.pdf)

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# Digital transformation (continued)

## Shaping the future of European healthcare (continued)

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### The drivers of digital transformation in healthcare

Healthcare systems across Europe are facing unprecedented pressure. While the quantity and quality of care has improved, the scale and complexity of healthcare needs have grown, together with public expectations of more personalised and convenient services.

At the same time, healthcare staff and resources have become increasingly constrained and the gap between supply and demand has grown. Most countries are looking to digital transformation to close this gap but progress has been slow and the digital maturity of providers, both within and between countries, varies widely.

Over the past six months, the need to respond swiftly to the COVID-19 pandemic has accelerated the use of digital health technologies, but more remains to be done to ensure the equity and sustainability of healthcare.

### Perspectives of our survey of clinicians on digital transformation

To explore further, we launched a survey of 1,800 clinicians to assess the use of digital technologies across seven European countries. Its aim was to understand the views of frontline clinicians working across primary and secondary care about the challenges they face and the benefits they are seeing from technology adoption.

When asked about the current state of digitalisation in their country, the most frequently mentioned negative words were 'Slow, Complex and Bureaucratic'. The three most frequently mentioned positive words were 'Fast, Innovative and Efficient'.

Overall, those surveyed were hopeful about the future. The majority of European clinicians feel that it will take less than five years from now to achieve a fully digital healthcare system. Their expectations are also largely positive. The top three words they hope to use to describe the system in five years from now are 'Fast, Efficient, Simple'.

# Digital transformation (continued)

## Shaping the future of European healthcare (continued)

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### Challenges to digital transformation

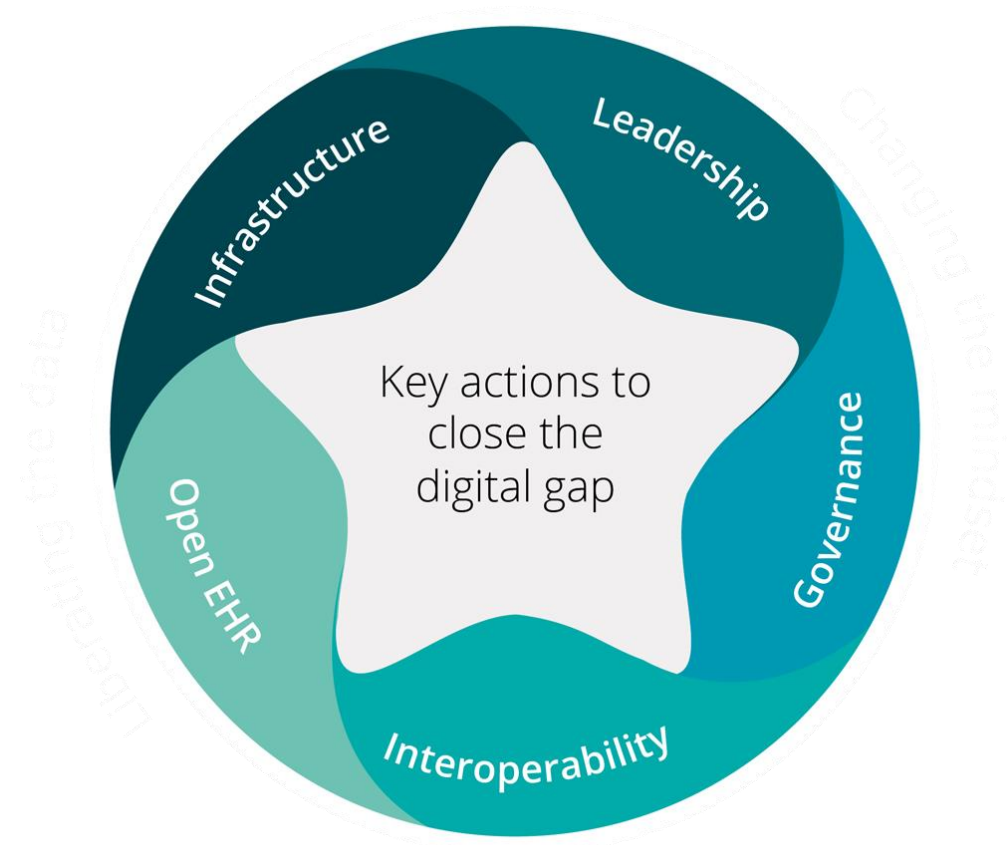
Our primary research shows that the benefits from digital transformation adoption vary widely. To realise the benefits, infrastructure, cultural and operational changes are needed including improvements in the education and training of clinicians. They also need to adapt to the fact that patients are becoming better informed and more demanding than in the past.

Responses to the survey identified the top three challenges organisations face in implementing digital technologies as: bureaucracy in healthcare (57.4 per cent), the cost of technologies (50.3 per cent) and finding the right technologies (49.0 per cent).

While the responses were broadly similar across the seven countries, the top three challenges included training staff to use technology among clinicians in Italy and Portugal, and sharing patient data among those in the Netherlands.

Furthermore, majority of clinicians across Europe said that their organisation is 'very well' or 'reasonably well prepared' to adopt digital technologies, with Denmark was most prepared and Germany the least.

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# Independent review of adult social care

## Feeley report

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### Background and overview

On 1 September 2020 the First Minister announced that there would be an Independent Review of Adult Social Care in Scotland as part of the Programme for Government. The Review was chaired by Derek Feeley, a former Scottish Government Director General for Health and Social Care and Chief Executive of NHS Scotland. Mr Feeley was supported by an Advisory Panel of Scottish and international experts.

The principal aim of the review was to recommend improvements to adult social care in Scotland, primarily in terms of the outcomes achieved by and with people who use services, their carers and families, and the experience of people who work in adult social care. The review took a human-rights based approach.

The Independent Review concluded at the end of January 2021 and its report, together with an accompanying short film, was published on 3 February 2021.

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### Next steps

The review concluded that there are three things that must change in order to secure better outcomes:

1. Shift the paradigm;
2. Strengthen the foundations; and
3. Redesign the system.

A summary of the key themes of the recommendations is on the following page. The full report is available at:

<https://www.gov.scot/publications/independent-review-adult-social-care-scotland/>

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# Independent review of adult social care (continued)

## Feeley report (continued)

The recommendations within the report cover the following key themes



# Scottish Futures Trust - New Frontiers for Smarter Working, Work and Workplace post COVID-19

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## Background and overview

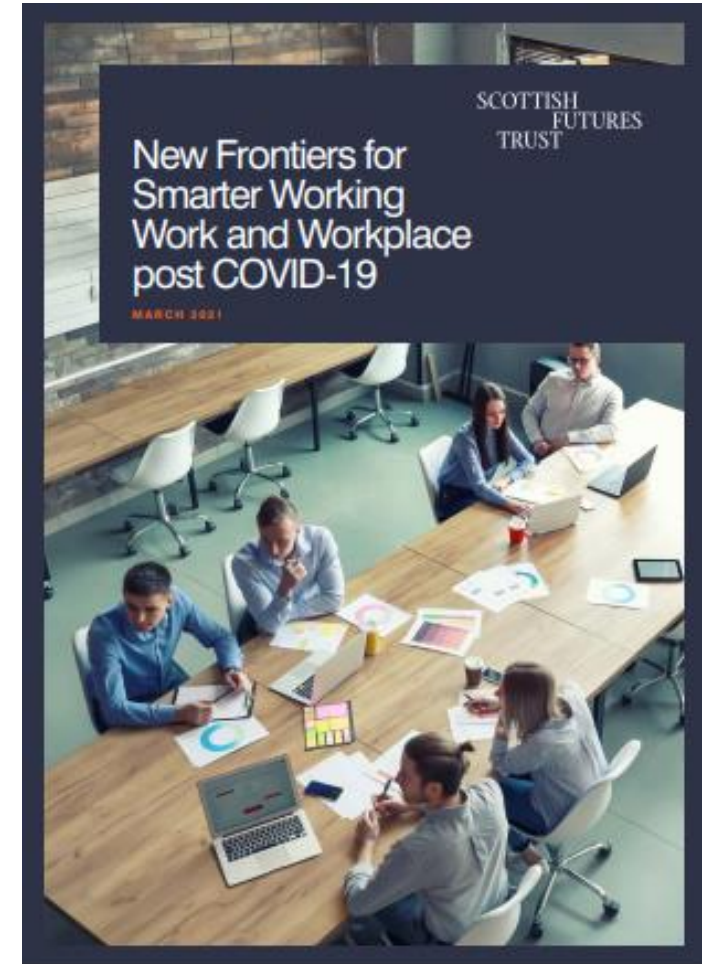
**COVID-19 has fast-tracked a social revolution where a wider range of working choices could be on the horizon for hundreds of thousands of workers.**

A new report by infrastructure experts, the Scottish Futures Trust (SFT) reveals that the workforce of the future - predominantly those who have been office based - will want to make informed choices of where and how to work most productively and more beneficially for their wellbeing.

Post the pandemic, organisations should consider the three 'Hs' of working - from Home, a nearby hub or local location, where employees can meet clients or have time to concentrate on projects, or the HQ and head office, where people can gather to socialise, brainstorm ideas or collaborate face-to-face.

The "New Frontiers for Smarter Working, Work and Workplace Report also finds that this new blended future will depend on how employers gauge the benefits from the improved working set up while ensuring the wellbeing of employees.

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## Next steps

The report reveals a new future for best work, productivity and wellbeing. The full report is available at

[Layout 1 \(scottishfuturestrust.org.uk\)](https://scottishfuturestrust.org.uk)

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# Appendices



# Audit adjustments (continued)

## 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.

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		Debit/ (credit) SoCNE £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year SoCTE £m	Debit/ (credit) OCI/Equity £m
Asset Transfer	[1]	-	-	-	-
<b>Total</b>		-	-	-	-

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[1] During the audit we identified a misstatement in relation to the presentation of the transfer of assets from predecessor bodies. This was initially presented with cost and depreciation separately for both intangibles assets and property, plant and equipment. As the entity has effectively acquired the assets this should have been presented at net book value within the cost line.

# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

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

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report		
<ul style="list-style-type: none"><li>- Higher Paid employees did not reconcile to the underlying payroll report</li><li>- Headcount did not reconcile to the underlying payroll report</li><li>- Fair pay disclosure was not presented in the draft financial statements</li><li>- Exit packages – one was presented with the incorrect banding</li><li>- Staff Turnover, Staff survey and trade union facility time information was not presented in the draft accounts</li><li>- Pension cost disclosure for individuals was calculated incorrectly</li><li>- Employment and occupation information such as health and safety was not presented in the draft financial statements</li></ul>	<p>FReM 6.5.16</p> <p>Trade Union (Facility Time) Regulations 2017</p>	<p>Qualitatively material – important for users' of the Annual Report and Accounts understanding of movement in the payroll costs.</p>

# Action plan

## Recommendations for improvement – Wider scope

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial Capacity</i>	There should be reporting to the FARC to set out the roles and responsibilities in operation, and what further developments are seen as being needed in the SLA with NSS (for both financial services and more generally), with plans to address these set out.	A year 1 joint review of the shared service arrangement is underway with NSS. This report will go to FARC and Board in August and September accordingly. At the same time joint management will look to articulate clearly roles and responsibilities of the two parties.	Director of Strategic Planning and Performance	September 2021	Medium
2	<i>Budget Setting</i>	In conjunction with the FARC, management should review and formalise the budget-setting process, including setting out those involved and their stage of involvement. In carrying out this review, there should be sufficient opportunity for the FARC to contribute to the budget setting process at the 'input' stage, rather than only at the 'approval' stage.	Budget process for 22/23 in development with a paper on process being taken to FARC in August 21.	Director of Strategic Planning and Performance	August 2021	High
3	<i>Governance and Scrutiny</i>	Following development sessions, a summary document highlighting the 'key takeaways' of what was discussed and future actions should be presented to the Board.	Agreed	Director of Strategic Planning and Performance	August 2021	Low
4	<i>Governance and Scrutiny</i>	A programme of self-assessment should be established for the Board and its committees.	A governance self assessment process is in place as part of the NHS annual review. There are lessons to be learned from year 1 and we will look to improve this for year 2.	Director of Strategic Planning and Performance	In place but process reviewed by December 2021	Medium

# Action plan (continued)

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
5	<i>Openness and Transparency</i>	PHS should conduct a review of its approach to openness and transparency – including public access to meetings, publication of information, and engagement with stakeholders – and report to the Board on where PHS currently sits, where it aims to be and how it plans to get there.	Agreed. We will do this as part of our review around good governance and working with other Boards on best practice, recognising the current climate.	Director of Strategic Planning and Performance	October 2021	High
6	<i>Internal Control: Journals</i>	We recommend that the system journal approval limit for PHS is decreased to ensure that there is sufficient scrutiny of journals posted through the eFinancials system at an individual journal level.	The journal limits were raised in year for reporting purposes only. To address an issue in the National Finance Dashboard our Head of Management Accounts posted a reversing journal each month to reflect the actual funding received from Scottish Government. For 2021/22 NSS have developed the financial reporting dashboard to address this issue. The journal limit has now been reduced to £10m to bring back in line with PHS income and expenditure.	Associate Director of Finance NSS	June 2021	Medium
7	<i>Internal Control: Management Review</i>	We would recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft annual report and accounts.	This has been an exceptional year and although our Annual Accounts planning and timetable allowed sufficient time for review of the accounts and working papers, there were a number of delays which contributed to the late submission of working papers and the time available for review. We are planning a lessons learned session with a variety of stakeholders across NSS, PHS and Deloitte in August to reflect on the process this year and have a robust plan in place for 2021/22	Associate Director of Finance NSS	August 2021	Medium

# 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 PHS 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

We have also asked PHS 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 relation to operating within the expenditure resource limit 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 FARC on the process for identifying, evaluating and managing the system of internal financial control.

# Independence and fees

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

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**Independence confirmation** We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of PHS and our objectivity is not compromised.

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**Fees** The audit fee for 2020/21, which was communicated to management in February 2021 and included in our Audit Plan is £75,693, as analysed below:

	£
Auditor remuneration	70,103
Audit Scotland fixed charges:	
Pooled costs	3,830
Audit support costs	-
Contribution to PABV	1,760
<b>Total proposed fee</b>	<b>75,693</b>

We have still to assess any impact the delays in provision of information and statutory accounts. Once completed, we will discuss any impact on the fee with management.

No non-audit services fees have been charged for the period.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard and the 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.

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**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.



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