



Public Health Scotland

Report to the Finance, Audit and Risk Committee, the Board and the Auditor General for Scotland on the 2021/22 audit

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Key messages

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 Committee”) of Public Health Scotland (“PHS”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

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.



Key messages (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.

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of PHS.

Following updates made by management, the auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 11.

No corrected misstatements in excess of our reporting threshold of £86k has been identified up to the date of this report which is included within the Appendix to this report.

Key messages (continued)

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work has considered how PHS is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

Financial management

PHS continues to have effective budget setting and monitoring arrangements in place. Work is progressing to implement the recommendations arising from this review of the Service Level Agreement. It is important that these actions are progressed at pace to ensure the strategic direction of the shared service arrangement.

PHS's arrangements are supported by a sound internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error. We do, however, recommend that management and internal audit re-assess the level of internal audit input to ensure that it remains sufficient and provides the required level of coverage for the risks that PHS faces.

Financial sustainability

PHS is projecting a financially sustainable position over the short to medium term. The level of efficiency savings planned is very ambitious and there remains significant risks, in particular in relation to COVID-19, therefore it is important that this is closely monitored.

Improvements have been made in the year in relation the budget setting and planning process, with a focus on outcomes. Further work is planned for 2022/23 to fully develop its workforce planning.

Progress has been made during the year in developing the transformation programme. Further work is now planned to consider the capacity and capability within PHS and how together with its partners, can deliver impact.

Governance and transparency

The Board continues to have strong and effective leadership in place with a smooth transition to the new Chair during the year. Appropriate and effective governance arrangements are also in place, with further enhancements planned through the introduction of a self-assessment tool.

Key messages (continued)

Value for money

PHS has developed its performance management framework enhancing the reporting presented to the Board. Despite the continuing pressures, PHS is reporting to be on track or expected to deliver over 90% of its commitments. Further work is required to develop indicators that demonstrate the impact the work PHS has to outcomes. It is positive to see specific focus on this in the newly approved Strategic Plan.

Best value - PHS has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development and there is a clear commitment to continuous improvement, as evidenced through the implementation of a number of the recommendations that we made in our 2020/21 report.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.

Next steps

An agreed Action Plan is included on pages 46 to 51 of this report, including a follow-up of progress against prior year actions.

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.

We have also included our “sector developments” on pages 41 to 44 where we have shared Audit Scotland’s national reporting and our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the NHS. We note that particularly as the organisation moves to mainstreaming it’s COVID-19 work it will shift focus from mainly the NHS to a wider pool of stakeholders across the public, private and third sectors going forward.

Pat Kenny
Associate Partner









Annual Report and Accounts Audit



Quality Indicators

Impact on the execution of our audit







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

Area	Grading		Reason
	FY22	FY21	
Timing of key accounting judgements			Documentation in relation to key area of judgement in relation to the injury benefit provision was provided early in the audit process and there were no issues identified on review of this area.
Adherence to deliverables timetable			The Annual Report and Accounts were provided within one working day of the deadline set despite delays in receipt of information from Scottish Government and the four week turnaround which is an improvement from the prior year we are pleased to note. While the majority of information was provided on time those that were overdue were on average overdue by one week which is similar to the prior year.
Access to finance team and other key personnel			Deloitte and PHS have worked together to facilitate remote communication during the audit which has been successful despite resourcing challenges encountered by the audit team.
Quality and accuracy of management accounting papers			On the whole documentation provided has been a good standard. However, we encountered some issues with listings provided not being fully disaggregated or containing lots of equal but opposite entries including payments and other income. This has lead to more samples being selected for testing than otherwise would have which is a similar issue to the prior year and some other NHS Boards. This is in the context of the tight turnaround for production of accounts.

 Lagging  Developing  Mature

Quality Indicators (Continued)

Impact on the execution of our audit (Continued)

Area	Grading		Reason
	FY22	FY21	
Quality of draft financial statements			A full draft of the annual report and accounts was received for audit on the 2 May 2022. Whilst generally compliant with the reporting requirements, amendments were required. These are discussed further on page 19. This is in the context of the tight turnaround for the production of the accounts.
Response to control deficiencies identified			Control deficiencies have been disclosed and management have investigated appropriately. These are discussed further on page 16.
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.



Lagging



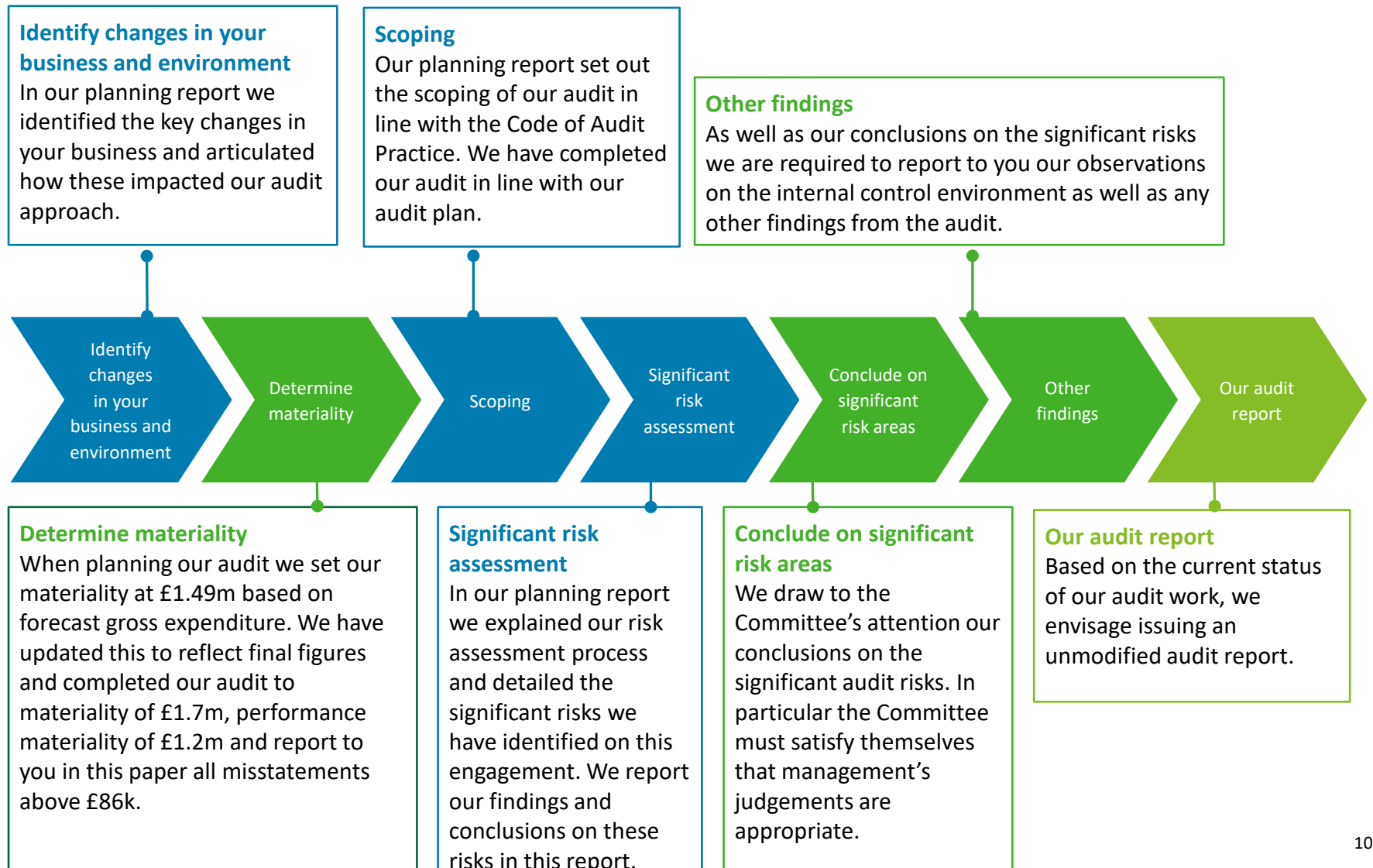
Developing



Mature







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	12
Management override of controls			D+I	Satisfactory		Satisfactory	13

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 previous years, we do not consider this to be a significant risk for PHS 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 considered 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. 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 PHS by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing to date, we confirm that the Board has performed within the limits set by Scottish Government Health and Social Care Directorate (SGHSCD) 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 financial statements 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.
- 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. We have however identified a control weakness in relation to the review of individual journals as discussed on page 16.

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 12). 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
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 Central Legal Office (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>

Significant Risks (continued)



Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold of £25,000 per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. As at 31 March 2022 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>

Other Significant Findings

Internal control

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

Area	Observation	Priority
Journals	During the course of our audit testing it was identified that not all individual journals are reviewed by another appropriate member of the finance team prior to posting. While it is noted that the management accounts are reviewed at several stages and by a number of stakeholders this is not necessarily documented. It remains best practice for all journals above a threshold e.g. £50k to be reviewed within the system prior to posting.	
Management Review	During the audit, disclosure deficiencies were identified in relation to the remuneration and staff report disclosures. These could have been prevented through a more in-depth management review, whereby 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 47. We are aware that some items were delayed from Scottish Government, the turnaround for the production of the accounts is four weeks and note that this has improved when compared with the prior year which is an achievement.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls 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:

The PHS 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.

Regulatory change

IFRS 16, Leases, comes into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. We have considered the preparatory work carried out by management and the disclosures made in the 2021/22 Annual Report and Accounts and satisfied that the new standard has been appropriately considered.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organization, the new fair pay disclosure requirements and the assessment 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 the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our Audit Report

Other matters relating to the form and content of our report

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



Our opinion on the financial statements

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

Opinion on regularity

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

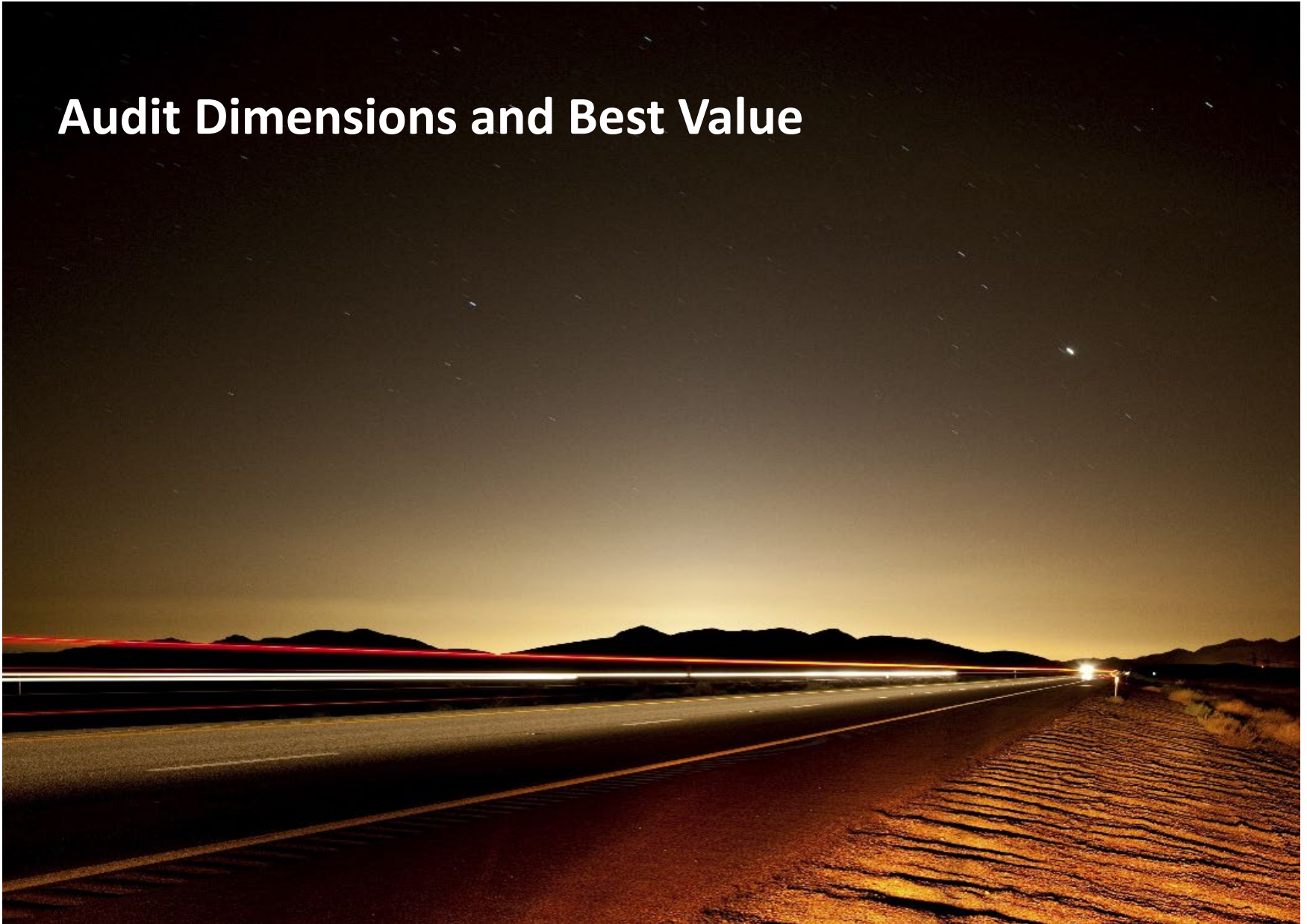
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 19.

Your Annual Report

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

	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. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provide management with comments and suggested changes and have received an updated version reflecting these changes. This includes splitting out the overview and analysis sections within the report.</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 Annual Governance Statement is consistent with the Annual Report and Accounts 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. We have raised a disclosure deficiency on page 52 relating in particular to new fair pay requirements introduced this year. We have seen similar issues on non-compliance with the new requirements across NHS boards.</p>

Audit Dimensions and Best Value



Financial management

Is financial management effective?



Are budget setting and monitoring processes operating effectively?



Is there sufficient financial capacity?



Financial Management

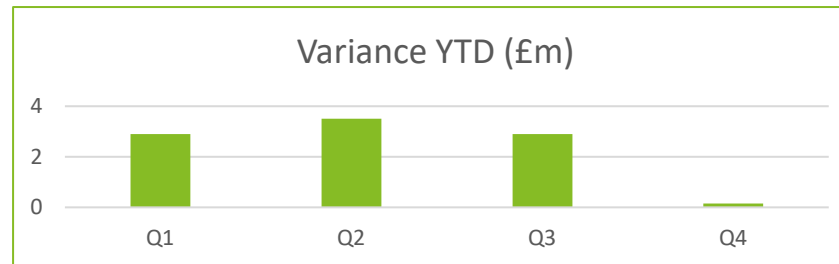
Significant risks identified in Audit Plan

In 2020/21 we concluded that PHS had established strong financial planning and management arrangements. The use of the Service Level Agreement ('SLA') with National Services Scotland ('NSS') evolved during the first year of operations and we highlighted that there remained some uncertainty over the allocation of roles between PHS and NSS which present an ongoing risk. We have therefore continued to review the arrangements in place as summarised on the following pages. We have followed up on the work done as part of the year one joint review of the shared service arranged that was planned.

Current year financial performance

The 2021/22 revenue budget was approved by the Board in April 2021, projecting a breakeven position. In agreeing the budget, the Board noted that PHS would use vacancy savings to deliver Cash Releasing Efficiency Savings (CRES) targets in 2021/22, with a more strategic approach planned from 2022/23 onwards. It also acknowledged the associated risks with non-recurring income and welcomed the positive engagement with the Scottish Government, noting that this work would be completed during the first quarter of 2021/22.

The budget has been updated throughout the year to include in year movements and additional funding received from the Scottish Government to support the ongoing response to the COVID-19 pandemic. Underspends have been reported against the budget throughout the year, as illustrated below. This was largely as a result vacancies with staff continuing to support COVID-19 work streams and their positions not being able to be back-filled due to sector wide recruitment pressures. Recruitment has been successful towards to end of the year. PHS has reported a small surplus of £92,000 at the end of the year.



Financial management (continued)

Current year financial performance (continued)

A capital budget of £2.8m was also approved in April 2021 and has been closely monitored throughout the year. The actual expenditure incurred at the year end was £2.333m, which was an underspend of £130,000 against the revised funding allocation from the Scottish Government.

The approved revenue budget includes CRES of £3.1m. The actual savings achieved were £2.5m.

As part of the response to the COVID-19 pandemic, PHS developed a mobilisation plan detailing the additional activities to support its response, alongside the estimated financial impact. Financial returns have continued to be submitted during 2021/22. The final COVID-19 costs reported to the Board amounted to £26.6m.

Finance capacity

PHS has an SLA in place with NSS, who has responsibility for the operational finance function. In our 2020/21 report we highlighted that the use of the SLA had evolved in the first year of operation and there was some uncertainty over the allocation of roles between PHS and NSS. We therefore recommended a report back to Finance Audit & Risk (FARC) to set out the roles and responsibilities in operation and what further developments are needed in the SLA.

PHS and NSS carried out a joint review of the first year of the arrangements and reported the outcome of this review to the FARC in August and then the Board in September 2021 setting out a number of key recommendations. The following three recommendations were agreed as a priority by the Board:

1. Review of DaS (NSS's Digital and Security) Services
2. A Value for Money (VFM) review of the shared services
3. Improved joined up systems and process

Each of these have been progressed, with an update provided to the Board in February 2022. PHS has recognised that the work done by CapGemini Intelligent Customer Function (in relation to priority 1) and the VFM review (in relation to priority 2) will support the next stages in the development of the services that PHS require to support the delivery of its strategic objectives. Equally important will be the new Shared Service Oversight Group and the appointment of the Head of Governance and Resources.

Financial management (continued)

Finance capacity (continued)

The conclusions from the VFM review, which was reported to the FARC in May 2022, highlighted the following:

- The new governance arrangements under the leadership of the Shared Service Oversight Group (SSOG) have potential but need sustained commitment from all parties.
- The senior teams from both PHS and NSS should come together by the end of June 2022 to agree, as far as possible, a shared vision for the strategic direction of the shared services arrangements.
- Having agreed the strategic direction of the arrangements, the SSOG should lead the development of a strategic improvement plan for the shared services arrangements, to be completed by September 2022, and to run alongside the latest PHS three-year business plan.

Further work is therefore required to fully implement the recommendations arising from the joint review.

Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the FARC in March 2021, which included four audits to be completed during the year, with a budget of 50 days including 10 days to manage the contract. At the FARC in March 2022, members questioned whether the number of days assigned by internal audit was sufficient for PHS. We have done some analysis comparing a sample of internal audit plans for other NHS bodies as summarised below. This does indicate that the number of days is on the low side. While the number of days is not the only factor to consider in assessing the sufficiency of the internal audit function, with outputs equally important, we would recommend that management discuss the plan for 2022/23 with internal audit to ensure that there is sufficient coverage, taking into account the current risks faced by PHS and the work done to date in a relatively new organisation.

	Gross Expenditure	Internal Audit days
NHS special board	£34m	86
NHS territorial board	£78m	80

We have considered the work of internal audit as part of our audit work on the Annual Governance Statement as discussed further on page 19.

Financial management (continued)

Standards of conduct for prevention and detection of fraud and error

We have assessed PHS's arrangements for the 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.

National Fraud Initiative (NFI)

All NHS Boards are participating in the most recent NFI exercise which commenced in 2020/21. We have continued to monitor PHS's participation and progress in the NFI during 2021/22 and submitted an assessment of PHS's participation to Audit Scotland in February 2022. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2022. We concluded that the Board was fully engaged in the exercise.

In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the FARC and staff leading the NFI work review the NFI self appraisal checklist for future exercises.

Deloitte view – financial management

PHS continues to have effective budget setting and monitoring arrangements in place. We are pleased to note that PHS and NSS have undertaken a review of the SLA to ensure that it has sufficient operational financial capacity and are progressing with the recommendations arising from this review. It is important that these actions are progressed at pace to ensure the strategic direction of the shared service arrangement.

PHS's arrangements are supported by a sound internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error. We do, however, recommend that management and internal audit re-assess the level of internal audit input to ensure that it remains sufficient and provides the required level of coverage for the risks that PHS faces.

Financial sustainability

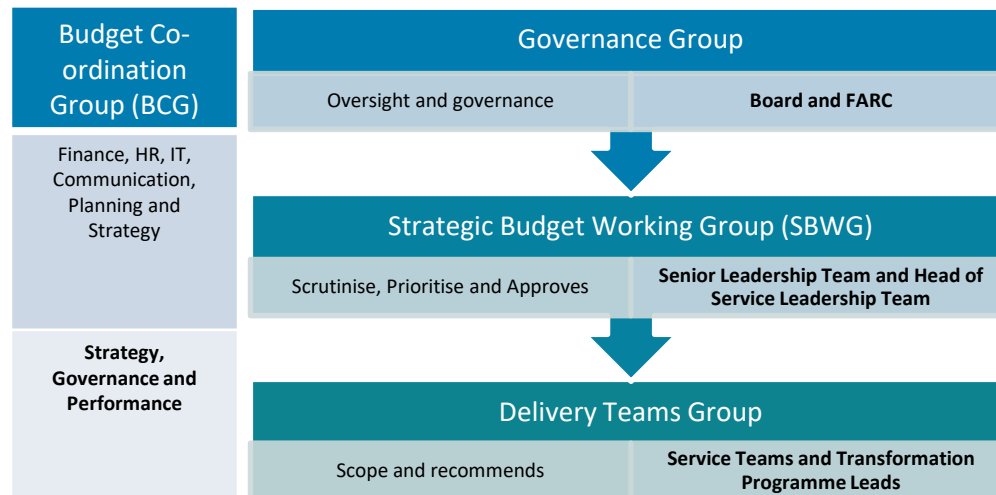


Significant risks identified in Audit Plan

There remains a significant risk that robust medium-to-long term planning arrangements are not in place to ensure that PHS can manage its finances sustainably and delivery services effectively. We have therefore considered the 2022/23 budget setting process and the progress made in developing and implementing the medium-to-long term planning arrangements.

2022/23 budget setting and planning

The budget process for 2022/23 started much earlier than in previous years, with work starting in July 2021. This allowed additional time for PHS to carefully consider the financial implications of service review, funding structure, new developments and develop an efficiency savings progress. Two new groups (the SBWG and BCG) were also created to help ensure a robust decision making process, as illustrated below:



Financial sustainability (continued)

2022/23 budget setting and planning (continued)

The budget was developed in four key phases:

- Phase 1: Income Strategy
- Phase 2: Delivery Plan Refresh
- Phase 3: Draft Plan
- Phase 4: Board approval of Financial Plan

In November, the FARC approved a new planning and budget approach, which is designed to ensure that planning and budget setting are fully aligned.

PHS has started identifying and scoping the vital pieces of work that it will undertake to deliver its outcomes and objectives. The approach being taken is to identify areas which it either wants to maintain, grow or start to deliver the greatest impact. To deliver this, it also needs to consider which areas it will need to reduce and stop. It recognises that this will be required to deliver a balanced budget if additional resource is not available to support any additional expenditure. This approach is a significant departure from the approaches taken by legacy bodies but is a positive step in demonstrating how outcomes are driving resourcing decisions.

Regular updates have been provided to the FARC during the year on the progress being made with the development of the budget and three-year plan.

A breakeven budget for 2022/23 was approved by the Board in March 2022.

In setting its budget the Board has highlighted three issues/risks which it is managing:

- Scottish Government planning guidance has been significantly delayed. PHS has therefore proceeded with its work and set out its budget ahead of other NHS-wide processes.
- As a result of the level of uncertainty in the future of Scotland's ongoing response to COVID-19 it is not possible to develop sufficiently detailed plans about how PHS will mainstream its response to COVID-19.
- There is also uncertainty around the level of COVID-19 funding. The budget is based on the Scottish Government funding all COVID-19 costs.

The budget assumes successful achievement of savings of £4.469m, which is significantly higher than the 5% target set by the Scottish Government, which equates to £2.6m. The budget assumes that the savings achieved will be reinvested in innovation or new service provision.

Financial sustainability (continued)

Medium-to-long term planning

Under normal circumstances, the Scottish Government require NHS Boards to demonstrate financial balance over a medium-term three-year period, via submission of a three-year financial plan. This requirement was put on hold in 2021/22 due to the impact of COVID-19, and the Scottish Government has advised that it is only expecting a one-year Annual Operating Plan for 2022/23.

Whilst there is no Scottish Government requirement for a three-year financial plan, it is positive to see that PHS has developed one, which anticipates a breakeven position over that period.

The Strategic Plan for 2022-2025 was approved at the same time as setting the budget and set out a clear direction, focused on delivering Scotland's national outcomes in the national performance framework.

The Head of HR was involved in the planning process through joint Directorates discussions on planning, finance and workforce implications. The workforce implications set out within the strategic plan along with the 2022/23 budget is being used to create a 3-year workforce projection for PHS. Reflecting the refreshed strategy, an updated workforce plan is anticipated to be agreed in late summer 2022.

COVID-19 Remobilisation Plan

The Board, in collaboration with its partners, has prepared a Remobilisation Plan (RMP4) which was submitted to the Scottish Government. This provided an overview of PHS's performance in the first half of 2021/22 and then goes through a series of areas where its work has moved on since its Delivery Plan was approved in April 2021, reflecting the unfolding nature of the COVID-19 pandemic and Scotland's response.

Transformation Programme

As reported in our 2020/21 audit report, PHS launched its Transformation Plan in January 2021 which covers the period to March 2023, and a Transformation Oversight Group ('TOG') has been set up to provide governance for the plan. We highlighted that it was important that as the Transformation Plan is developed and progresses, that there is sufficient Board involvement in the transformation process.

Transformation is being delivered through a suite of programmes, through the four Directorate Delivery Plans. In addition, there are a number of underpinning programmes, including digital; equality, diversity and inclusion; finance; communications and engagement; and climate change and sustainability.

Financial sustainability (continued)

Transformation Programme (continued)

During the year, the Board has been updated on specific aspects of the Transformation Plan including:

- The development of the Digital and Data Strategy, which is a key component of transformation; and
- Examples of collaborative working driving transformational change.

A full update was then provided to the Board in May 2022 setting out the progress since the Transformation Plan was launched and what plans are in place to deliver transformation in the future, for 2022/23 and beyond.

PHS recognises that the key difference in how transformation will be managed and overseen in the future will be to ensure a much stronger link between its own internal transformation and its role to enable and support transformation of the wider public health system. Part of the future plans includes refreshed governance through a new Strategy, Innovation and Transformation Board. Transformation will be delivered through the development of a 'shared problem think tank' to tackle complex and cross organisational issues, to help PHS get from where it is now and where it needs to be in the future.

In our 2020/21 audit report, we highlighted that PHS had a degree of project management support to progress the Transformation Plan and management were aware of the need to re-assess capacity to deliver projects on an ongoing basis.

The update to the Board noted that in developing the Strategic Plan 2022-25, PHS has set out "the who, how and what" and now needs to consider its capacity and capability, and that of its partners, and how together they will deliver impact. This is therefore an area for further development in 2022/23. To demonstrate the impact of the transformation work, it is important that a clear benefits tracker is developed to monitor progress and allow action to be taken if not in line with plans.

Financial sustainability (continued)

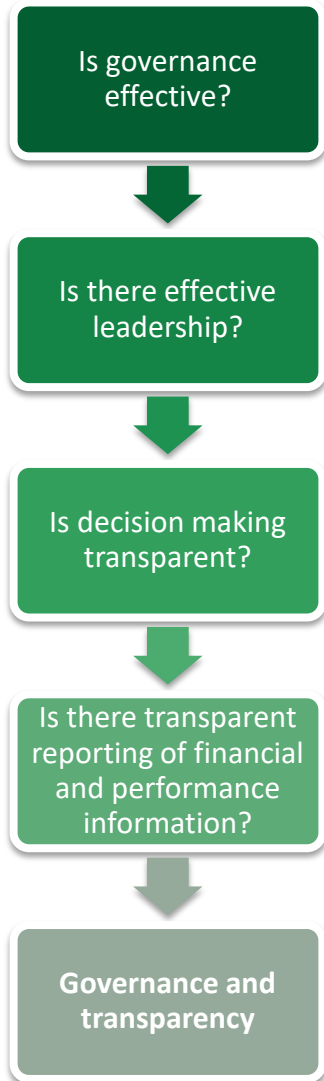
Deloitte view – Financial sustainability

PHS has achieved short term financial balance in 2021/22, has set a balanced budget for 2022/23 and projects a balanced position over the next three years, therefore is projecting a financially sustainable position over the short to medium term. The level of efficiency savings planned is very ambitious and there remains significant risks, in particular in relation to COVID-19, therefore it is important that this is closely monitored.

In line with our recommendations from our previous years audit, the FARC and Board were engaged with the budget setting process much earlier in the year which is positive change. The joined up approach of planning and budgeting, with a focus on outcomes, is also a positive step. We recognise that further work is planned during 2022/23 to fully develop a workforce plan to align with the strategic plan and budget.

Progress has been made during the year in developing the transformation programme. Further work is now planned to consider the capacity and capability within PHS and how together with its partners, can deliver impact. It is important that as part of that development, a clear benefits tracker is developed to be able to evidence the impact that the transformation programme is having, and allow action to be taken if not in line with plans.

Governance and transparency



Significant risks identified in Audit Plan

In 2020/21 we concluded that PHS has strong leadership and effective governance and scrutiny arrangements in place. Allowing for the impact of COVID-19 and the establishment of PHS in 2020/21, PHS had plans in place to improve its approach to openness and transparency. As a result of the appointment of a new Chair to the Board in 2021/22 and allowing for the fact that PHS has only been operational for one year, there remains a risk around the effectiveness of the governance and leadership arrangements which needs to be closely monitored. We have therefore reviewed the work of the Board and its Committees, as well as the transition to the new Chair of the Board, as summarised on the following pages.

Leadership

The Senior Leadership Team (SLT) has remained largely consistent during the year, with just one change with the departure of the Director of Data Driven and Innovation which is currently being filled on an interim basis. The SLT has continued to provide strong leadership during the year. We are aware that the Director of Strategic Planning and Performance is due to leave early in 2022/23.

As noted above, a new Chair was appointed to the Board during the year, taking up post from September 2021, replacing the former interim Chair. She has brought with her a wealth of experience and knowledge from a number of high-profile positions across local government, national government and the third sector. The transition has gone smoothly, with the new Chair providing an update to the Board in November on her reflections on the key strategic issues facing the organisation based on her first three months in post.

In our 2020/21 audit report, we highlighted the positive work in developing PHS-specific and one-to-one support for Board Members to enable them to effectively deliver their functions. We did recommend that, 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. Two development sessions have taken place during 2021/22, with actions taken from the most recent session in March. Plans are in places to develop this further as part of the integrated governance work.

Governance and transparency (continued)

Governance and scrutiny arrangements

We have reviewed meetings attendance from the past year and confirm that there has been adequate attendance. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

The FARC continues to be a key element of the governance arrangements in place. It has provided oversight and scrutiny of the risk management activity, with this being a standing item on each agenda. An updated Corporate Risk Register was considered most recently by the Committee in May 2022, with updates provided on the mitigating action being taken to manage these risks.

In our 2020/21 audit report, we recommended that, in line with good practice, a programme of self-assessment should be established for the Board and its Committees. Management has advised that work is underway to develop the self-assessment tool and is planned to be implemented during 2022/23.

Whistleblowing standards

The National Whistleblowing Standards and Once for Scotland whistleblowing policy (the Standards) were introduced on 1 April 2021. Update reports have been provided to the FARC during the year setting out the organisational activity in relation to whistleblowing concerns raised throughout the year.

Liz Humphreys is the Non-Executive Whistleblowing Champion and has been overseeing the implementation of the changes to the standards. The Director of Strategic Planning and Performance, as Whistleblowing Executive Lead, is responsible for ensuring the implementation of the standards.

An Annual Report was considered by the FARC in May 2022, having also been considered by the Staff Governance Committee before submission to the Independent National Whistleblowing Officer. This reported on the work that had been done during the year and PHS's performance, along with areas for development during 2022/23. In 2021/22, PHS had no formal Whistleblowing cases. There was a single case within NSS that impacted on PHS but the investigation and findings were carried out by NSS. PHS was kept informed of the process and outcomes.

Governance and transparency (continued)

Openness and transparency

All Board agendas and minutes are publicly available through its website, along with minutes of all governance committee.

In line with our recommendation made in our 2020/21 report, PHS has conducted a review of its approach to openness and transparency and made some enhancements during the year. The first hybrid Board meeting took place in March 2022, with members of the public able to access through the website. Further work is planned to encourage member of the public to join meetings in the future. PHS therefore continue to demonstrate openness and transparency of decision making and performance information (which is considered further on page 34).

Deloitte view – Governance and transparency

The Board continues to have strong and effective leadership in place with a smooth transition to the new Chair during the year. Appropriate and effective governance arrangements are also in place, with further enhancements planned through the introduction of a self-assessment tool.

The Board continues to be open and transparent. It has also implemented the National Whistleblowing Standards.

Value for money



Significant risks identified in Audit Plan

In 2020/21 we highlighted that PHS was working on improving performance reporting and establishing a defined framework. Whilst recognising that the COVID-19 pandemic has had a significant impact on the organisation, the absence of a robust performance management framework presents a risk to being able to demonstrate what impact the body is having on outcomes and value for money. We have therefore reviewed the progress made in developing a performance management framework and the performance reports presented at the Board to assess the extent of openness and transparency during the year, as summarised on the following pages.

Performance management framework

In our 2020/21 audit report, we highlighted that PHS had not yet developed a performance management framework due to the ongoing pressures and impact of the COVID-19 pandemic. In year reporting had been limited to reporting on activity undertaken.

Quarterly performance reports have been presented to the Board during 2021/22, incorporating a wider suite of information than previous years to inform and assure the Board on PHS's performance. This was closely linked to the ambitions set out within the 2021/22 Delivery Plan. The reports follow a standard structure as follows:

1. Highlights – covering each of the four ambitions headings within the Delivery Plan.
2. Delivering impact through collaboration.
3. Challenges.
4. Performance Indicators.
5. Finance.

Value for money (continued)

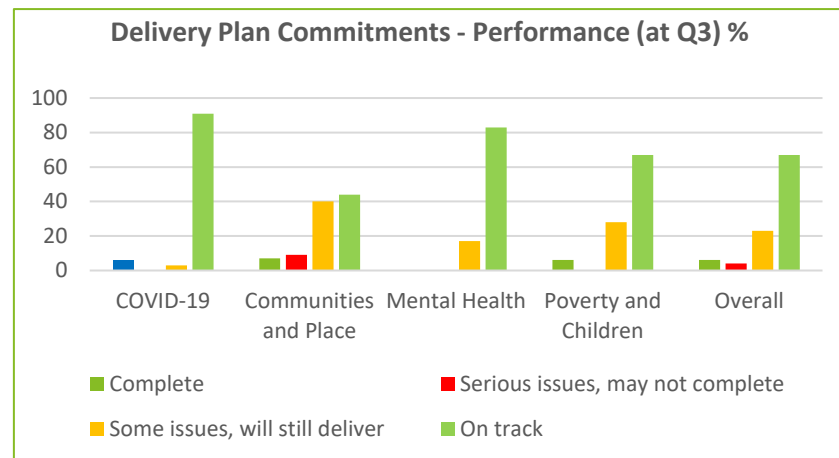
Performance management framework (continued)

The performance indicators are currently more output driven, e.g. performance against commitments in delivery plan, media coverage, freedom of information requests, rather than being outcomes focussed. However, as noted on page 27, the Strategic Plan for 2022-2025 has recently been approved, where there is a clear focus and link to the National Performance Framework and the impact that PHS expect to make. It is important that performance reporting for 2022/23 and beyond is clearly linked back to how performance is linked to improving outcomes.

Performance data

Performance in 2021/22 has continued to be impacted by the ongoing response to the COVID-19 pandemic. The Delivery Plan 2021-24 details how PHS will respond to COVID-19 right now and how it will address Scotland's health and wellbeing in the long-term, of which COVID-19 is an inseparable part.

A summary of PHS's performance against its commitments set out in its Delivery Plan are shown in the graph opposite, which demonstrates that despite the continuing pressures, it is on track or expected to deliver over 90% of its commitments. This performance is consistent to that reported in quarters 1 and 2 of the year.



Deloitte view – Value for money

PHS has developed its performance management framework enhancing the reporting presented to the Board to demonstrate how it is performing against its commitments. Regular reporting on performance is provided to the Board and despite the continuing pressures, PHS is reporting to be on track or expected to deliver over 90% of its commitments. Further work is required to develop indicators that demonstrate the impact the work PHS has to outcomes. It is positive to see specific focus on this in the newly approved Strategic Plan.

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

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

As noted elsewhere within this report, PHS has an established governance framework and strong leadership.

PHS recognises that it must deliver services within the financial resources available and, in setting its 2022/23 budget has put a specific focus on outcomes. This approach is a significant departure from the approaches taken by legacy bodies but is a positive step in demonstrating how outcomes are driving resourcing decisions.

Deloitte view – Best Value

PHS has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development and there is a clear commitment to continuous improvement, as evidenced through the implementation of a number of the recommendations that we made in our 2020/21 report.

Emerging issues

Climate change

Background

As reported in the PHS Annual Report and Accounts, it is in the process of developing and embedding an action plan for sustainability, to progress its corporate aspirations, as well as ensuring compliance with the Climate Emergency and Sustainability Development Policy which was issued to the NHS in Scotland in November 2021.

In March 2022, Audit Scotland published a report [Addressing climate change in Scotland | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/reports/2022/03/addressing-climate-change-in-scotland) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high-level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Board carry out a self-assessment against each of these points and develop an action plan to help focus on where further work is required.

Key themes

Suggested actions

Leadership – public bodies should make responding to climate change a core value and key outcome.

Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.

Governance – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.

Good governance ensures accountability and transparency. It requires:

- Monitoring, evaluating, reporting and verifying plans with clear timeframes;
- Feedback mechanisms to review how things work as they are being implemented;
- Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and
- Effective scrutiny, oversight and challenge by elected members and non-executive board members.

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
<p>Community empowerment to develop local solutions – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.</p>	<p>Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,</p>
<p>Behavioural change – clearer information on the environmental impact of people’s choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.</p>	<p>There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability.</p> <p>Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.</p>
<p>Alignment of policy and spend – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.</p>	<p>Policy alignment – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector.</p> <p>Alignment of spend – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.</p>

Emerging issues (continued)

Climate change (continued)

Key themes	Suggested actions
<p>Robust planning for net zero, mitigation and adaption – robust cross-sector plans are essential, but experts recognise the challenge is colossal.</p>	<p>As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector’s response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning.</p> <p>Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.</p>

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

Results of our work on key audit judgements and our observations on the quality of your Annual Report and Accounts.

Our internal control observations

Other insights we have identified from our audit.

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 | 15 June 2022

Sector developments



NHS in Scotland 2021

Background and overview

The Auditor General for Scotland published his NHS in Scotland 2021 overview report in February 2022. This concluded that the Scottish Government must focus on transforming health and social care services to address the growing cost of the NHS and its recovery from COVID-19.

Key messages

- The NHS in Scotland is operating on an emergency footing and remains under severe pressure.
 - NHS and social care workforce planning has never been more important.
 - The NHS's ability to plan for recovery from COVID-19 remains hindered by a lack of robust and reliable data across several areas.
 - The NHS was not financially sustainable before the pandemic and responding to COVID-19 has increased those pressures.
-



NHS in Scotland (continued)

2021 (continued)

Recommendations (relevant to NHS boards)

The report recommends that the Scottish Government and NHS Boards should:

- work with partners in the social care sector to develop a long-term, sustainable solution for reducing delayed discharges from hospital;
- publish data on performance against the clinical prioritisation categories, to enable transparency about how NHS boards are managing their waiting lists;
- work with patients on an ongoing basis to inform the priorities for service delivery, and be clear on how services are developed around patients' needs;
- take a cohesive approach to tackling health inequalities by working collaboratively with partners across the public sector and third sector, and be transparent on how it will do this;
- improve the availability, quality and use of workforce data to ensure workforce planning is based on accurate projections of need;
- monitor and manage risks around the impact of additional work outlined in the NHS recovery plan on the NHS workforce, to make sure recovery does not negatively affect staff wellbeing;
- communicate widely with the public on changes to how services are delivered so that people are aware of how best to access services, and monitor the effectiveness of that communication;
- prioritise the prevention and early intervention agenda as part of the recovery and redesign of NHS services, to enable the NHS to be sustainable into the future; and
- improve the availability, quality and use of data on primary, community and social care so that service planning is based on accurate measures of existing provision and demand.

Next steps

The Board should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [NHS in Scotland 2021 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk)

The future of public health report series

Building a fairer and sustainable system for the UK

Background and overview

The **Deloitte Centre for Health Solutions** has produced a **series of six reports** on the crucial role of public health and the actions needed to optimise the link between health and productivity to drive economic recovery and positive societal impact.

Public health challenges are complex requiring cross functional targeted, approaches to tackle them, alongside a deep understanding of the needs of defined populations. COVID-19 has shown the UK to be an unequal society and has exposed a crisis in public health services, including inadequate funding, variations in workforce capability and capacity and a need for clarity over roles, responsibilities and accountabilities.

The pandemic has raised awareness of public health's role in health protection, ill health prevention as well as health promotion and prolonging healthy life years for all. As well as promoting and prolonging healthy live years for all, it has also demonstrated the potential of public health to use community assets and tackle local health issues effectively.

Despite unequivocal evidence that prevention is more cost effective than treatment, funding cuts and a lack of focus on prevention hinder progress in reducing health inequalities and addressing the impact of social determinants on the physical and mental health of the population.

The full reports are available here [The future of public health | Deloitte UK](#), with some key highlights summarised on the following pages.

The future of public health report series (continued)

Building a fairer and sustainable system for the UK (continued)

Title	What the report explores
Overview – Narrowing the gap: establishing a fairer and more sustainable future public health	An executive overview of the key findings from the series, examining the current challenges and future requirements for a resilient public health system in the UK.
Identifying the gap: Understanding the drivers of inequality in public health	Evaluating the pre-existing and current challenges and solutions to tackling the ‘wicked problems’ affecting public health, including the impact of COVID-19.
Bridging the gap: Protecting the nation from public health threats	Examining the health protection policies and approaches in the UK, as well as the opportunities brought on by health reform and the creation of the new UK Health Security Agency.
Negating the gap: Preventing ill health and promoting healthy behaviours	Exploring how investment in prevention and health promotion can help increase healthy life years and reduce health inequalities.
Removing the gap: Galvanising community assets to improve health outcomes for all	Demonstrating the importance of asset-based, place-based solutions to improve public health, as well as of creating sustainable and systemic change to empower individuals and communities.
The role of employers in reducing the UK’s public health gap: Improving the health and productivity of employees.	Exploring how organisations can build a more resilient and productive workforce by supporting the health and wellbeing needs of their employees.

Appendices



Action Plan

The following recommendations have arisen from our 2021/22 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. National Fraud Initiative</p> <p>In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the FARC and staff leading the NFI work review the NFI self appraisal checklist for future exercises.</p>	<p>The NFI self-appraisal checklist will be completed and submitted to FARC ahead of the 2023/24 exercise.</p>	Low	Fraud Liaison Officer	September 2022
<p>2. Journal Review</p> <p>We recommend that the system journal approval limit is used for PHS rather than relying on manual controls. That limit should be set at an appropriate level for the organisation to ensure that there is sufficient scrutiny of journals posted through the eFinancials system at an individual journal level.</p>	<p>The national finance system is set up to allow journals to be prepared and posted by the same individual. We have a number of controls in place to ensure journal posted are appropriate, including regular review of all journals posted by management accounts team, independent review by the PHS business controller and regular budget monitoring dashboards are issued to budget holders. We will undertake a review of journal processing with our colleagues across NHS Scotland and implement our learnings.</p>	Medium	Associate Director of Finance, NSS	September 2022

Action Plan (Continued)

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>3. Management Review</p> <p>We would recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft annual report and accounts.</p> <p>We also then recommend that the draft annual report and accounts is subject to a detailed review by management prior to submission to audit.</p>	<p>As in the previous year our planning and timetable allowed sufficient time for review of the accounts and working papers. The time to finalise the financial position and the production of the accounts is very tight and we rely on external bodies to provide information on time to support this process. We will continue to work with SG and NHS boards to ensure we receive the information on time and look at ways to improve our planning and distribution of work to allow sufficient time for review.</p>	Medium	Associate Director of Finance, NSS	March 2023

Action Plan (continued)

We have followed up the recommendations made in our previous years audits. We are pleased to note that three recommendations have been fully implemented with two partially implemented and two superseded.

Recommendation	Management Response	Priority	Management update 2021/22
<p>1. Financial Capacity</p> <p>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.</p>	<p>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.</p> <p>Responsible Person: Director of Strategic Planning and Performance</p> <p>Target Date: September 2021</p>	Medium	<p>We have undertaken an initial review with a number of actions agreed for both parties. This has been presented to the Board.</p> <p>Fully implemented</p>
<p>2. Budget Setting</p> <p>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.</p>	<p>Budget process for 22/23 in development with a paper on process being taken to FARC in August 21.</p> <p>Responsible Person: Director of Strategic Planning and Performance</p> <p>Target Date: August 2021</p>	High	<p>Papers presented to the FARC in September on the approach to the budget process, high level assumptions, income strategy, efficiency programme and next steps. We will continue to report at each the committee on the progress of the budget setting process prior to approval.</p> <p>Fully implemented</p>

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p>3. Governance and Scrutiny Following development sessions, a summary document highlighting the 'key takeaways' of what was discussed and future actions should be presented to the Board.</p>	<p>Agreed</p> <p>Responsible Person: Director of Strategic Planning and Performance</p> <p>Target Date: August 2021</p>	<p>Low</p>	<p>Ongoing - We have had two development sessions this financial year and actions have been taken from the most recent session in March. This will be developed further as part of the integrated governance work.</p> <p>Partially implemented Revised Target date: TBC</p>
<p>4. Governance and Scrutiny A programme of self-assessment should be established for the Board and its committees.</p>	<p>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</p> <p>Responsible Person: Director of Strategic Planning and Performance</p> <p>Target Date: December 2021</p>	<p>Medium</p>	<p>This is still in progress, work is underway to develop the self assessment tools and will be implemented during the new financial year.</p> <p>Partially implemented Revised Target date: TBC</p>

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p>5. Openness and transparency 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.</p>	<p>A 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.</p> <p>Responsible Person: Director of Strategic Planning and Performance</p> <p>Target Date: October 2021</p>	High	<p>We have held the first Board meeting in March using a hybrid model, with some members attending in person and others via teams. The PHS website welcomes members of the public to the Board session and we are developing a plan to encourage members of the public to join in the future.</p> <p>Fully implemented</p>
<p>6. Internal Control: Journals 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.</p>	<p>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.</p> <p>Responsible Person: Associate Director of Finance NSS</p> <p>Target Date: June 2021</p>	Medium	<p>Journal limits were reduced in June 2021</p> <p>Superseded</p>

Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p>7. Internal Control: Management Review</p> <p>We would recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft annual report and accounts.</p>	<p>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</p> <p>Responsible Person: Associate Director of Finance NSS</p> <p>Target Date: August 2021</p>	Medium	<p>Lessons learned session took place in September. Planning is now underway in NSS to ensure requirements are clearly communicated in January</p> <p>Superseded</p>

Audit Adjustments

Disclosures

Disclosure misstatements

The following corrected disclosure misstatements have been identified up to the date of this report which we report to you to assist in meeting your governance responsibilities:

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Remuneration Report</p> <ul style="list-style-type: none">- Incorrect remuneration banding disclosed for one individual;- Non-disclosure of the percentage change in highest paid director and associated narrative;- Non-disclosure of the percentage change in average pay and associated narrative;- Incorrectly including the highest paid director in the calculation of median and quartiles;- Incorrectly excluding agency staff from the calculation of median and quartiles; and- Incorrect banding disclosure in relation to one exit package due to a late adjustment.	<p>FReM 6.5</p>	<p>Qualitative material – important for the users’ of the Annual Report and Accounts understanding of the movement in the payroll costs</p>
<p>These issues are similar across NHS boards.</p>		

Our Other Responsibilities Explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

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



Audit work performed:

In our planning we identified the risk of fraud in 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 audit committee 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:

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.

Fees The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £81,319, as analysed below:

	£
Auditor remuneration	70,103
Audit Scotland fixed charges:	
Pooled costs	7,711
Audit support costs	3,505
Total fee	81,319

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

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

Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



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