



NHS Health Scotland

Report to the Audit Committee and Board and the Auditor General for
Scotland on the 2017/18 audit

Issued on 31 May for the meeting on 20 June 2018

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Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee of NHS Health Scotland for the 2017/2018 audit. The scope of our audit was set out within our planning report presented to the Committee in November 2017.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by NHS Health Scotland, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Achievement of expenditure resource limits; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8. The Board met all its financial targets for 2017/18.
- We have identified a small number of immaterial audit adjustments and disclosure misstatements from our procedures to date which have not been corrected by management. These are detailed in the appendices. The net impact of the uncorrected misstatement in relation to the injury benefit provision is £0.065m, therefore would not impact on the Board meeting its financial targets given it has reported a surplus of £0.123m for the year. As this relates to a provision, the Board expect additional Annually Managed expenditure (AME) funding to be requested in 2018/19 to fund this amount.
- The performance report and accountability report comply with the direction issued by Scottish Ministers which requires compliance with the Government Financial Reporting Manual (FReM) and the requirements of the NHS accounts manual; and are consistent with the financial statements and our knowledge of the Board.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Receipt of final financial statements;
 - Finalisation of our internal quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

The Board continues to face a challenging financial position. While it met all of its financial targets in 2017/18, after carrying forward a surplus of £145k from 2016/17, as summarised below and is projecting a balance budget for 2018/19, this is based on delivering significant efficiency targets.

The requirement for National Boards to provide £15m collaborative and recurring efficiency savings has been agreed but the delivery of the £15m is not yet fully defined with much of the initial savings having been derived from non-recurring sources. As at 31 March 2018, Boards have committed to a collective savings figure of £11.6m, with the remaining £3.4m to be identified through collaborative working in 2018/19.

NHS Health's short to medium term focus is on ensuring a successful transition to a new public health body. The timing of this is still uncertain.

<p>2017/18 final outturn position reported an underspend against core RRL of £0.123m (0.6%).</p> <p>A breakeven position has been reported against non-core RRL (£0.299m) and core capital resource limit (CRL) (£0.015m), and an immaterial overspend of £0.065m against the cash requirement (£19.550m).</p> <p>We would note that the above is subject to an uncorrected adjustment of £0.065m, which would impact on the non-core RRL. We understand that the Board intends to correct this in 2018/19 and request additional funding from the Scottish Government as part of 2018/19 allocations to cover this.</p>	<p>A balanced budget for 2018/19 was approved in March 2018.</p> <p>This included £0.325m of non-recurring savings that need to be achieved.</p> <p>It also assumes other efficiency challenges including a loss of uplift to the baseline allocation (£183k), recovery for agenda for change pay awards above 1% (£140k), and additional resources required for the set up of the new Public Health Body (£150k) to cover the costs of internal staff reassignment who are involved in the process.</p>	<p>The Board achieved £0.825m of savings during 2017/18 which comprised revenue savings of £0.325m and capital savings of £0.568m (working jointly with NHS Education for Scotland and National Services Scotland) This has contributed to the £15m savings target for National/ Special Boards.</p> <p>The National/ Special Boards Working Groups are finding it difficult to achieve transformational changes across National/ Special Boards which will contribute meaningfully to the £15m recurring savings target for 2018/19.</p>
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Governance statement

We have reviewed the draft annual governance statement. The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have restricted our wider scope audit work to reviewing:

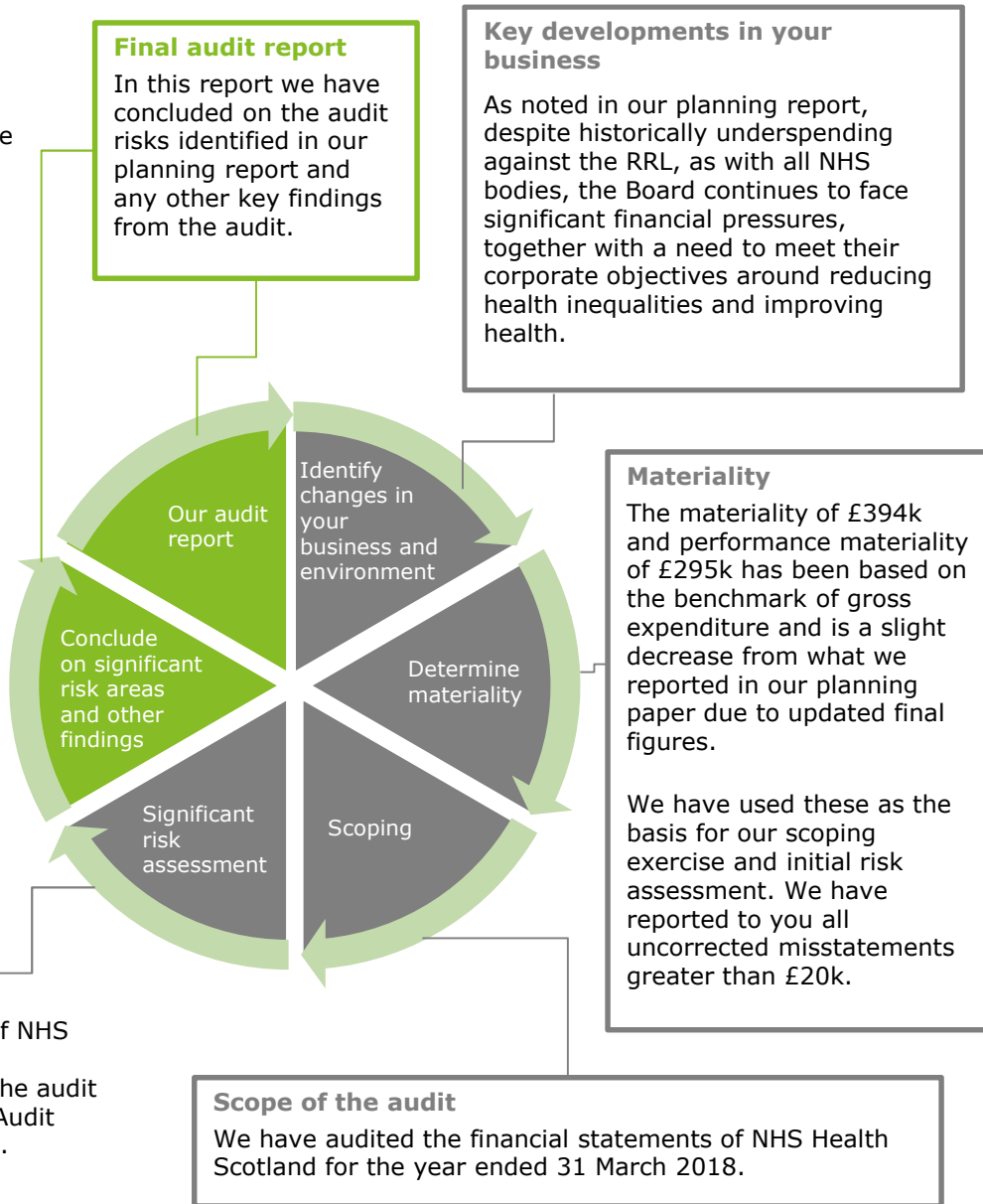
- The governance statement
- Financial sustainability

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of NHS Health Scotland. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017/18

November 2017

Meetings with management and other staff to update understanding of the processes and controls.

17 November 2017

Presented planning paper to the Audit Committee

May 2018

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

March 2018

Year end

23 May 2018

Audit close meeting

20 June 2018

Audit Committee meeting

8 June 2018

Audit Committee







20 June 2018

Accounts sign off

Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

There is a key financial duty for NHS Health Scotland to comply with the Revenue Resource Limit set by the Scottish Government.

The risk is therefore that NHS Health Scotland materially misstates expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

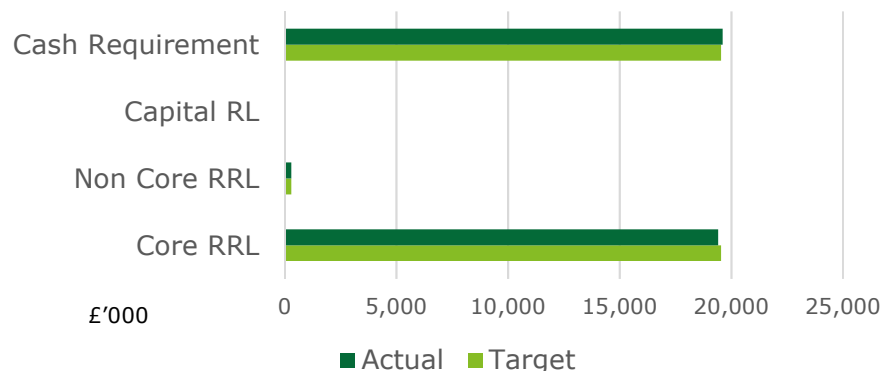
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- evaluated the design and implementation of the controls management has in place to monitor achievement of financial targets;
- obtained independent confirmation of the resource limits allocated to NHS Health Scotland by the Scottish Government;
- performed focused testing of accruals and prepayments made at the year end; and
- performed focused cut-off testing of invoices received and paid around the year end.



Deloitte view

We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified.

We confirm that NHS Health Scotland has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD). While the cash target is showing an immaterial variance of £65k, this is due to payments made by the Scottish Government on NHS Health Scotland's behalf which are not taken into account in the allocation letter as considered immaterial.

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- We have raised an insight on the control environment in relation to the journal authorisation.

Deloitte response

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

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

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

Significant transactions

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

From our testing, we noted that the calculation of the injury benefit provision was incorrectly determined due to the use of outdated information, with this being raised as an uncorrected audit misstatement. There was no indication of management bias and management have agreed to review the process around this for 2018/19.

Journals

We have 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.

We performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

We have raised an insight in relation to journal authorisation but did not identify any issues with journal postings from our testing.



Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Journal Authorisation	<p>Journals posted by senior members of the finance team are not subjected to prior authorisation or subsequent review, which resulted in the audit adjustment regarding the injury benefit provision discussed on page 10. This is often more challenging where the finance function is small. We have therefore recommended that quarterly reviews be carried out by the Head of Finance and Procurement of journals which are posted with this being evidenced. We would note that this has been partly implemented at the time of the year-end audit visit. It is important that some level of authorisation or review of postings to the general ledger by all member of the finance function, including senior members should be performed. Management have agreed to fully implement this during 2018/19.</p>	
Classification of Liabilities	<p>As at the year end, liabilities for which invoices have been received remain classified as 'accruals' rather than 'trade payables' as there is no process in place to identify those which have been invoiced by the year end date and which should therefore be classified as trade payables. Management have agreed to introduce a process to correct this from 2018/19 onwards.</p>	

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 (continued)

Insights delivered

We have utilised Spotlight to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Value Band (€C)	Number of Journals	% Number of Journals	Gross Value (€C)	% Gross Value (€C)
0	139	2.28%	0.00	0.00%
0.01 - 1	68	1.12%	47.11	0.00%
1.01 - 10	371	6.09%	3,310.14	0.00%
10.01 - 100	2,071	34.01%	175,172.15	0.19%
100.01 - 1,000	1,943	31.91%	1,515,767.16	1.60%
1,000.01 - 10,000	1,012	16.62%	11,075,777.72	11.71%
10,000.01 - 100,000	372	6.11%	29,795,699.15	31.51%
100,000.01 - 1,000,000	101	1.66%	32,449,196.58	34.31%
1,000,000.01 - 10,000,000	12	0.20%	19,550,000.00	20.67%

The journal posting efficiency at NHS Health Scotland is commendable: 24.59% of journals posted accounted for 98.21% of the total value posted in the year. This suggests that little time is wasted on accounting for miniscule amounts and that journals are efficiently posted in batch as required.

We identified the most commonly included words in journal descriptions posted to the general ledger.

We understand that all journals that have “unknown” descriptions are either system generated POP accruals for the GRNI or journals where the description has been copied from the original system generating the invoice processing and therefore have a clear business rationale and appropriately authorised.

We performed a review of the posting frequency of staff with access to the system and noted that all staff have taken long holidays (>5 consecutive days) in the year, reducing concern for potential fraudulent behaviour or finance function stress and fatigue.



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. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

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



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Opinion on regularity

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

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 14.



Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration 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 NHS Health Scotland's performance, both financial and non-financial, including achievements, issues and risks.	<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.</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.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that the 2018/19 Financial Plan was approved by the Board on 23 March 2018 and included draft budgets for 2018/19. We have concluded that the plan is sufficiently robust to demonstrate that NHS Health Scotland will be a Going Concern for 12 months from signing the accounts.</p> <p>While there is uncertainty around the timing of to the new Public Health Body, the functions delivered by NHS Health Scotland will continue under the new body, therefore the adoption of a going concern basis is appropriate, in accordance with the FReM.</p> <p>While NHS Health Scotland's Balance Sheet is reporting a net liability position, this is due to the requirement for the Board to show liabilities for future years in its accounts without showing funding anticipated from the SGHSCD. Accordingly, the accounts have been prepared on the going concern basis. These facts have been appropriately disclosed within the Performance Report.</p>

Wider scope audit work



Wider scope audit work

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by NHS Health Scotland, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

- SR 1** – EU Withdrawal
- SR 2** – New Financial Powers
- SR 3** – Ending public sector pay cap
- SR 4** – Cyber security risk
- SR 5** – Openness and transparency

Wider scope audit work (continued)

Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have consider the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the Scottish Public Finance Manual.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte response



Based on our audit work and the work of internal audit, we have not identified for reporting any changes in governance arrangements or any issues of concern in the governance statement.

Deloitte view

The governance statement meets the requirements of the Scottish Public Finance Manual and no inconsistencies have been noted.

Having reviewed the processes in place at NHS Health Scotland – specifically with regards to treasury management and expenditure – and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

Wider scope audit work (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) 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



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response



We have monitored the Board's actions in respect of its short, medium and longer term financial plans, including progress towards outcome based planning/ budgeting.

We have monitored the Board's savings plans to assess whether the impact has been fully identified, mitigated and planned for, taking into account the imminent transition to the new public health body.

Deloitte view

The Board continues to face a challenging financial position. While it met all of its financial targets in 2017/18 as summarised below and is projecting a balance budget for 2018/19, this includes various efficiency challenge, more so than in 2017/18, including: additional National Board Collaboration savings (£0.325m), loss of uplift to the baseline allocation (£183k), recovery for agenda for change pay awards above 1% (£140k), and additional resources required for the set up of the new Public Health Body (£150k).

While these are significant challenges, we are satisfied that robust budget setting and monitoring processes are in place and, on the basis of the achievement of historic savings targets, that future efficiencies are achievable.

NHS Health Scotland's short to medium term focus is on ensuring a successful transition to a new public health body. The timing of this is still uncertain.

Wider scope audit work (continued)

Financial sustainability (continued)

Short term financial position

For **2017/18**, the Board approved a core RRL balanced budget of £19.306 million (2016/17: £19.631 million), which included £0.500m of non-recurring savings (2016/17: £0.061 million cash releasing and £0.911 million non-cash releasing). The final position for 2017/18 was an underspend against final Scottish Government approved budget (£19.537 million) of £0.123 million, which included savings of £0.325m.

The **2018/19** budget was approved by the Board on 23 March 2018. This includes budgeted total core RRL expenditure of £19.595m, which incorporates £0.325 million of savings, in line with the savings achieved in 2017/18.

In setting its budget the Board has recognised that a number of risks exist. Specific risks include a loss of uplift to the baseline allocation (£183k), recovery for agenda for change pay awards above 1% (£140k), additional resources required for the set up of the new Public Health Body (£150k), in addition to the £0.325m targeted savings to go towards the National Board Collaboration, in line with the savings achieved in 2017/18. The Board recognises that the challenge of achieving these efficiencies will be harder than they were in prior years.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. Additional funding from SG has been factored into the budget, but this is still subject to SG approval and allocation in Summer 2018.

Medium to long term financial sustainability

NHS Health Scotland has achieved significant savings over the past few years; however due to increasing demand for services and the continuing restraint in relation to funding settlements it will have to consider how it can fundamentally transform service delivery in order to continue to meet citizen needs with reducing, or at the very least static, budgets.

We note that going forward, the fundamental transformation of the organisation is to be met from a restructuring via transitioning to the new Public Health Body. Understandably, long term financial planning on the horizon of 5-10 years is not feasible given the impending transition, and is limited to shorter term planning. The Board's short to medium term focus is on ensuring a successful transition to a new public health body, although the timing of this is still uncertain.

Challenging efficiency targets continue to be the status quo, but historically, NHS Health Scotland has been able to demonstrate that it is able to meet savings targets with £0.325m contributed to the National Boards Collaboration being £0.075m more than was budgeted at the beginning of 2017/18. One concern is the non-recurring nature of this 0.325m savings, with the same budgeted savings for 2018/19 also anticipated to derive from non-recurring sources.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>NHS Health Scotland has noted that this is unlikely to have a significant impact on its operations but should keep a watching brief as the details are developed.</p>
New financial powers	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. NHS Boards should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
Ending public sector pay cap	<p>As discussed on page 19, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It has been built into the 2018-19 budget that Scottish Government will fund any additional costs of the pay increase in excess of 1% for staff on Agenda for Change (AFC) terms. Staff on AFC terms is estimated at 90% of the staff costs.</p>

Wider scope audit work (continued)

Specific risks (specific risks)

Risk identified	Response
<p>Cyber security risk</p>	<p>NHS Health Scotland have completed the Scottish Government’s Cyber Essentials pre-assessment, which has been shared with NSS to produce a NSS wide view. This has identified that it has some mandatory and advisory changes to do which are in progress and expect to complete the final assessment by October 2018.</p> <p>The Board has not developed a new cyber security policy/ strategy as it is working closely with NSS on the NHS wide strategy and will adopt this once complete, subject to any customisation for NHS Health Scotland specifics.</p> <p>There is a clear governance structure in place for considering cyber security risks. Cyber risks are dealt with via the same process as all other risks, with regular reports to the Board and the Audit Committee.</p> <p>The Director of Health Equity has specific designated responsibility for cyber security. A specific resource plan for cyber security is still being developed, however, in the meantime staff continue to be provided with relevant training as part of the induction programme, staff essentials programme and LearnPro mandatory training. All training undertaken is monitored by the Board. No specific gaps have been identified in capabilities.</p>
<p>Openness and transparency</p>	<p>From our audit work, we are satisfied that NHS Health Scotland is appropriately open and transparent in its operations and decision making.</p>

Technical update



Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FRoM). These new standards are not expected to have a significant impact on NHS Boards.

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to NHS Boards from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Healthcare Financial Management Association (HMFA) published its updated briefing in February 2018 on the application of IFRS 16. It notes that it is widely expected that the application of this standard will be time consuming for lessees so NHS bodies cannot postpone work until HM Treasury and then the Department of Health and Social Care (DHSC) produce their guidance. Therefore, the briefing sets out the practical steps NHS bodies should be taking now as well as highlighting the issues that will need to be considered when applying the standard for the first time.

Potential impact on the Board

NHS Health Scotland has significant operating lease commitments as at 31st March 2018 (£4.5m), in relation to the Gyle and MC sub-leases with NSS, which will be brought on to the statement of financial position from 2019/20 as both an asset and a corresponding liability. Given the material nature of the amounts and the expected time involved, it is recommended that management now consider the practical steps recommended in the briefing issued by HMFA.

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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

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 audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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

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 and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Audit Committee and 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.



for and on behalf of Deloitte LLP
Glasgow
31 May 2018

Audit adjustments

Unadjusted misstatements and disclosures

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by International Standards on Auditing (UK). The net impact of these is an reduction of £0.065m in the surplus for the period.

		Debit/ (credit) SOCNE £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year Equity £m	Debit/ (credit) in revenue £m	If applicable, control deficiency identified
Misstatements identified in current year						
Understatement of injury benefit provision	[1]	0.065	(0.065)	-	-	Page 10
Total		0.065	0.065	-	-	

[1] The provision for injury benefit was understated as at 31/3/2018 as the assumptions upon which the provision is based (life expectancy) were not updated for the most recently available information for the UK from the ONS. The error would reduce the net surplus position from £123k to £58k as at 31/3/2018, however it would not change it to a deficit position. As this relates to a provision, the Board expect additional Annually Managed expenditure (AME) funding to be requested in 2018/19 to fund this amount.

Disclosure misstatements

No uncorrected disclosure misstatements have been identified up to the date of this report.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Journal authorisation	Journals are often prepared and posted by the same individual with no apparent approval by another individual which gives rise to a control deficiency due to the lack of segregation of duties. The Reporting Accountant conducts a quarterly review of all the transactions in the system (including journals) but no cover sheet is added to this review showing that it was prepared/reviewed by the Reporting Accountant and signed off as reviewed/approved by the Head of Finance.	Management have agreed to implement the recommendation.	Head of Finance & Procurement	May 2019	Medium
Classification of liabilities	As at the year end, all 'trade' accruals should be reviewed in order to identify those accruals for which invoices have been received as at the year end date. These should then be manually adjusted in the statutory template to ensure that the amounts disclosed are treated correctly.	Management have noted the insight and will consider it for implementation going forward. However, no changes have been made for the current year accounts.	Head of Finance & Procurement	March 2019	Medium
Remuneration Report	As with the prior year, errors within the remuneration report were identified and although quickly rectified, these should be subject to additional levels of review going forward given the prominence of the remuneration report in the annual report.	Management have agreed to implement the recommendation.	Head of Finance & Procurement	March 2019	Low

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Injury Benefit Provision	<p>A late provision of £1.03 million had to be made for injury benefits under the SPPA arrangements. Whilst Health Scotland were aware of injury benefit claims being made on the basis of requests for information they were unaware of the progress of these claims.</p> <p>The issue of injury benefit claims and the lack of knowledge within the NHS organisations involved is of major concern to both Deloitte and Health Scotland. This matter has now been brought to the attention of the Scottish Public Pensions Agency (SPPA), Central Legal Office and the Scottish Government by the Board.</p> <p>We recommend that where any future cases are being progressed a contingent liability note will need to be included in the Health Scotland accounts until the outcome is known.</p>	<p>'Pipeline' cases will be recorded and assessed for potential contingent liability in discussions with the SPPA, CLO, and the Scottish Government during the year and as part of the y/e process in future.</p>	Head of Finance & Procurement	March 2018	High	<p>Deloitte have received confirmation from the SPPA that no further cases remain outstanding against NHS Health Scotland. Deloitte were pleased to note that management had requested updates on this from the SPPA throughout the year to keep themselves apprised of any developments.</p>

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Remuneration Report	<p>There were a number of errors in the initial version of the Remuneration Report, however management worked quickly and effectively to rectify these disclosures.</p> <p>Going forward we would suggest that these disclosures are reviewed prior to inclusion in the accounts.</p>	A fuller review of the Remuneration Report is part of our own plans to improve the y/e reporting.	Head of Finance & Procurement	April 2018	Low	The draft remuneration report was reviewed by management prior to being passed for audit which improved the quality of the first draft. However, two minor errors were identified in the exit package note in the current year, although these were again rectified quickly and effectively once identified.
Financial Sustainability	<p>With regards to financial sustainability and the assessment of the effectiveness of investment spend, it was noted that NHS Health Scotland issue quarterly management reports and a year end impact report, which are presented to the Board.</p> <p>The impact report lays out the impact that NHS Health Scotland have achieved against the key performance indicators for each of the domains within the performance framework. The report includes a blend of quantitative and qualitative measures to demonstrate NHS Health Scotland impact.</p> <p>We would recommend that the Board progresses this initiative of linking major project spend to outcomes and we will monitor progress on this during the period of our appointment.</p>	The audit comments made will be considered as part of the ongoing review of the key performance indicators.	Director of Strategy / Head of Finance & Procurement	Sept 2017	Medium	Per discussions, HS has a Corporate Planning Tool (which is reconciled to the Financial System) and can analyse costs against strategic priorities, deliverables and outcomes, which along with the annual Impact Assessment Reports and EFQM self-assessments helps HS to understand the impact of their work. This enables HS to identify relative costs and consider whether the benefits in the broader sense justify the costs, and to reprioritise where appropriate.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

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 complying with 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, internal audit and those charged with governance.

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

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

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2017/18 is £37,398.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors 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	<p>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.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



Events and publications

Our publications and insights to support the Board

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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