

Healthcare Improvement Scotland

Report to the Audit and Risk Committee, the Board and the Auditor General for Scotland on the 2018/19 audit

Issued 29 May 2019 for the meeting on 6 June 2019

Contents

01 Our final report

Introduction	3
Our audit explained	6
<i>Financial statements audit</i>	
Significant risks	8
Other matters	13
Other significant findings	14
Our audit report	15
Your annual report	16
<i>Audit dimensions</i>	
Overview	19
Governance statement	20
Financial sustainability	21
Specific risks	24
Other requirements	26

02 Appendices

Purpose of our report and responsibility statement	28
Audit adjustments	29
Action plan	30
Fraud responsibilities and representations	36
Independence and fees	37

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit and Risk Committee of Healthcare Improvement Scotland ('HIS') for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Committee in November 2018.

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 HIS, 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 HIS and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

Following a number of amendments made as a result of our audit, 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 HIS.

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

A summary of our work on the significant risks is provided in the dashboard on page 8. HIS met its financial targets for 2018/19.

Two misstatements in excess of our reporting threshold of £30k have been identified up to the date of this report. These have all been corrected by management, as disclosed on page 29. Arising from these misstatements, we have identified a deficiency in internal control (page 14) and corresponding recommendation (page 31).

In addition to these misstatements, we identified a number of disclosure deficiencies which have been corrected by management, as disclosed on page 29.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Completion of work for the Assurance Statement;
- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Conclusions on audit dimensions

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of HIS. We have, however, considered the specific risks highlighted by Audit Scotland, in particular:

- The impact of EU withdrawal;
- The changing landscape for public financial management;
- Dependency on key suppliers; and
- Increased focus on openness and transparency.

Our overall conclusion on the audit dimensions is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

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

Financial sustainability – In common with many health boards across Scotland, HIS is not in a financially sustainable position. While the Board is aware of its cost gap in the short-to-medium term and is taking action to address this, it has not identified the necessary savings to address the £2.824m (7.6%) annual cost gap by 2021/22. HIS is increasingly reliant on non-recurring measures to breakeven. The Board needs to improve its focus on longer-term financial planning, the development of clear savings plan, and prioritise and progress its change programme.

Our detailed findings and conclusions are included on pages 19 to 26 of this report.

Next steps

An agreed Action Plan is included at pages 30 – 35 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

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

This is provided throughout this report and our separate 'Sector Developments' report.

In particular, we have worked with management to substantially improve the annual report through an increased focus on the narrative sections of the report. In addition to this, during our audit, we worked with the finance team to identify improvements which could be made to the process for recording and monitoring of independent healthcare clinics, improving the accuracy of the amount of deferred income and reducing duplication of effort across the various teams involved.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the two audit dimensions in the reduced wider scope:

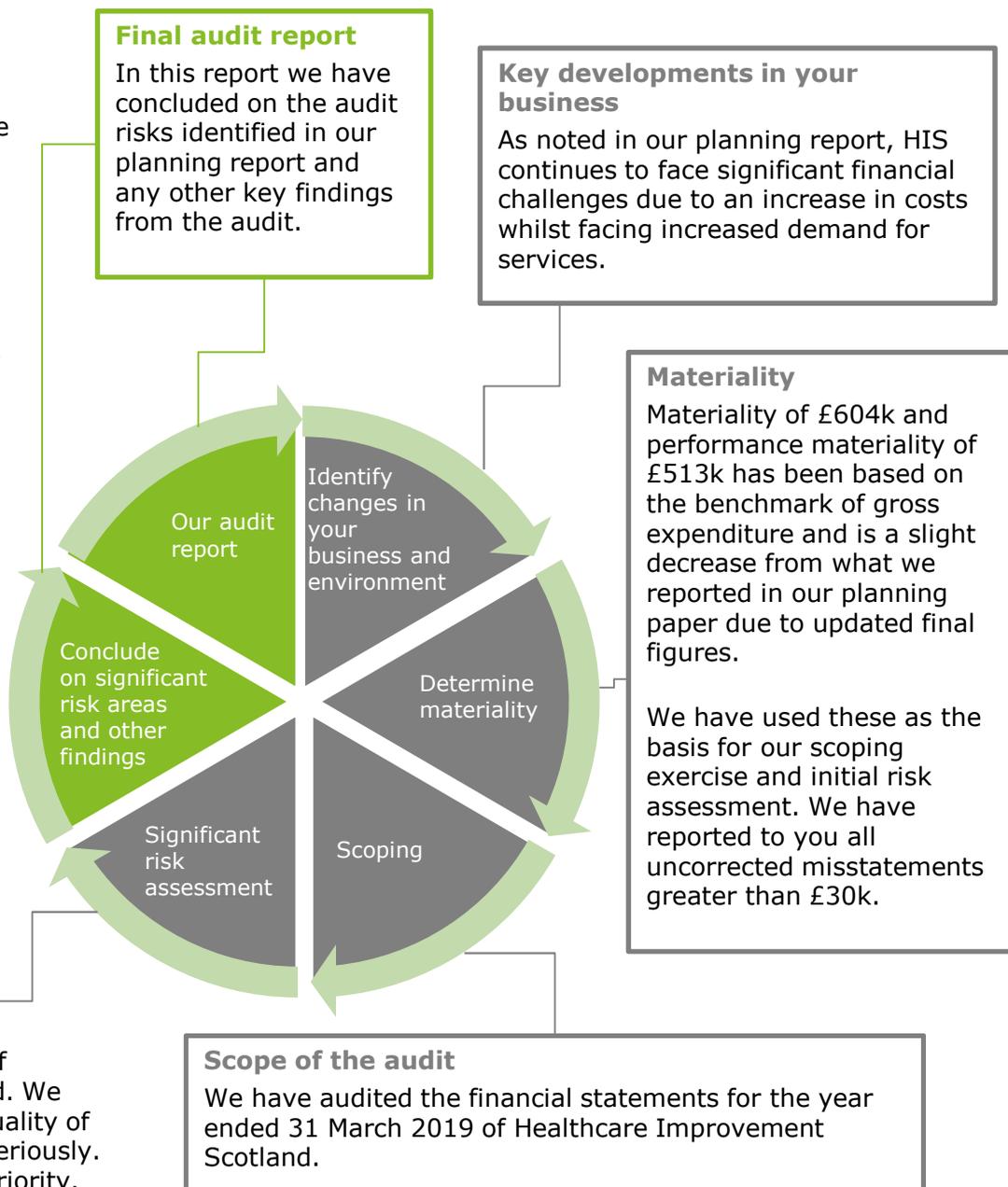
- Financial sustainability; and
- Governance and transparency.

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 Healthcare Improvement Scotland. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2018/19



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	Page no.
Revenue recognition			D+I	Satisfactory		Satisfactory	9
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit.



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Revenue recognition

Risk identified

The risk of fraud in revenue recognition is a presumed risk under International Standards on Auditing. The main component of income for Healthcare Improvement Scotland is the revenue from the Scottish Government and this is not considered to be a significant risk as the process for receipt of this income is not complex and can be verified 100% to the revenue allocation letter.

In 2018/19, HIS earned a material amount - £777k - of other income from independent clinics, based on a standard fee (2017/18: £648k). The balance of this income has shifted in the current year from registration to continuation fees. The significant risk is pinpointed to completeness of this income, given the judgement and complexity involved in recognition and deferral.



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 or deferral of income around year end.

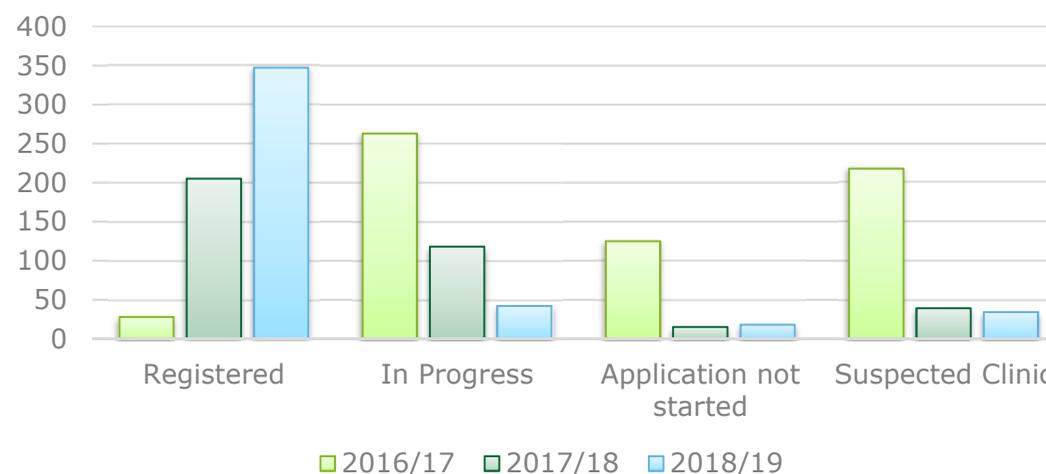


Deloitte response

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

- Evaluating the design and implementation of controls around recognition of independent clinic income;
- Sample testing of registered clinics and those known to HIS as suspected to be independent clinics, tracing to income recognised; and
- Sample testing any exemptions to confirm correct accounting treatment.

Number of Independent Clinics



Deloitte view

We have identified a £71k misstatement in the recognition of independent clinic income, which has been corrected by management as disclosed on page 29. This has no impact on the achievement of HIS' financial targets or its year-end surplus position as independent clinic income is not included in the Revenue Resource Limit ('RRL') and is recorded separately as 'other income'.

We have worked with the finance team to improve the accuracy of the deferral process, whilst also reducing the time involved through the removal of duplication of effort across teams within HIS.

Significant risks (continued)

Risk 2 – Achievement of expenditure resource limits

Risk identified

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

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

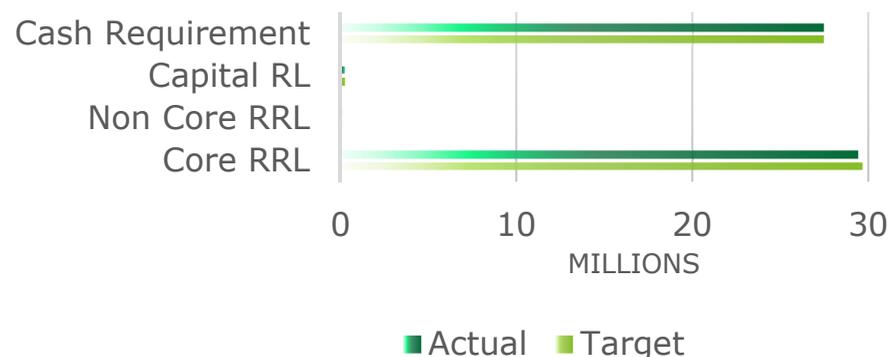
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



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:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to HIS by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.



Deloitte view

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

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

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified

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



The key judgements in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits and recognition of independent clinic income. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. Our challenge is discussed on page 12.



Deloitte response

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

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

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

Significant and unusual transactions

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

Journals

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

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

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

Accounting estimates

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

We reviewed accounting estimates for biases that could result in material misstatements due to fraud – we have included a summary on page 12.

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

We tested accounting estimates and judgements (including accruals, deferred income, consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), provisions and any other one-off accruals), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Although no misstatement was identified in the current year, we have included a recommendation in relation to the provision for dilapidations at page 32.

Deloitte view

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

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

Significant risks (continued)

Risk 3 - Management override of controls (continued)

Key judgements The key judgements in the financial statements are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

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

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs about this threshold are reimbursed from the CNORIS scheme by the Scottish Government. HIS provide for all claims notified by the NHS Central Legal Office, according to the value of the claim. There are no claims specific to HIS included in the provision. HIS also provides for its liability from participating in the scheme. This provision recognises HIS' respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the Central Legal Office.	The provision is valued by the Central Legal Office based on the information on claims and historical experience. The value of claims is notified to HIS by the Central Legal Office. In 2018/19, this amount is £nil as there are no specific claims against HIS outstanding. The other element of the provision – contribution to the national pool - is immaterial. It is advised by the Scottish Government and we receive assurance from Audit Scotland on the approach to this.
Accruals	Accruals relating to HIS operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.	We have assessed this estimate through the performance of detailed testing, testing accruals by test of details as a significant risk, with further testing on potential unrecorded liabilities performed at significant risk level to assess the completeness of the estimate. Based on the procedures performed, we are satisfied that the estimate is reasonable.
Dilapidations provision	HIS provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A dilapidations provision of £218k has been made in respect of a leased property in Glasgow. Management note that the provision is an estimate within a range, as permitted by accounting standards, and they are satisfied that the amount provided is reasonable within that range.	The provision has had no movement in the year (as expected, as the lease is ongoing). The value was measured in 2009, with high level consideration of the provision by management in 2018/19. We have performed analytical procedures on the dilapidations balance, adjusting for inflation as appropriate, with no issues noted. Given that there has been no change in the amount provided, that the amount provided was historically assessed by an independent surveyor, that there have been no changes to the lease or to properties for which dilapidations are required, and given that the amount provided is immaterial, we are satisfied that the provision is reasonable. However, we have raised a recommendation on this on page 32 to ensure this remains the case going forward.
Deferred income	HIS defer continuation fees in relation to independent healthcare income for the period over which the fee relates. For registration fees, income is deferred 100% until assigned to an inspector, 50% when assigned to an inspector, and 0% when fully registered. Continuation fees are deferred over the period to which they relate.	We have considered the policy adopted by HIS in relation to registration fees and confirmed this is in line with Scottish Government expectations and is reasonable. The approach adopted for continuation fees is standard practice. We have performed detailed testing of independent healthcare clinic income at significant risk level, discussed on page 9. We have identified adjustments which have been corrected by management and following this, are satisfied that the estimate is reasonable.
Expected credit loss (IFRS9)	The risk of default across the classifications has been assessed by management as being relatively low as they are primarily operating in the public sector. For private sector debtors (relating to independent healthcare clinic income), historical balances in excess of 90 days have a 30% rate of non-payment, representing 3% of total billing. Management therefore consider that lifetime expected credit losses on current debt are 3% and for debts outstanding more than 90 days, 30%. There are no debts outstanding from 0-90 days overdue. There has been no transition adjustment on adoption of IFRS 9.	We have reviewed the approach adopted under IFRS 9. The amount provided for is reasonable based on the current rate of non-payment for which no effort to pay has been made. The risk of material credit losses is remote. Given that the amount provided is trivial, that it is based on reasonable historical data, and given that through our understanding of the entity we are satisfied that the risk of material credit loss is remote, we are satisfied that the amount provided is reasonable.

Other matters

Implementation of IFRS9 and IFRS15

Matter identified

HIS is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, HIS is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. No opening adjustments were posted with regards to the adoption of either IFRS 9 or IFRS15.

Response

Following requests during the audit, management prepared a memorandum on IFRS 9 and IFRS 15, setting out the key areas of impact of both of these standards. These memorandums and discussion with management confirmed no transitional issues with respect to either IFRS 9 or IFRS15.

The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses – a practical expedient available for portfolios of debt such as that at HIS, is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. This method has been adopted by HIS and has resulted in the recording of a £30k provision.

There is a presumption that NHS debts will not require a credit loss provisions as these are effectively guaranteed by the State as last resort. Whilst the provision as a whole is not material, we reviewed the revised calculation methodology and considered the assumptions in light of past experience. We noted that whilst the revised methodology was in use, HIS' policies with regards to providing for bad debt have not yet been updated. We have highlighted this to management.

For IFRS15, a central analysis was prepared of HIS' main contracts, for which no significant changes are required under IFRS15. We reviewed management's assessment and challenged their assumptions in light of the contractual arrangements for independent clinics. From this review, we agree with management's assessment that there is no material impact from transition to IFRS 15.

Deloitte recommendation and insight

There is minimal impact from transition to IFRS 9 and IFRS 15. However, management will need to update their internal policies and procedures to reflect the revised accounting standards.

Other significant findings

Internal control and risk management

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

Area	Observation	Priority
Management Review	<p>Through our audit work, we identified a number of disclosure deficiencies (e.g. related parties, remuneration report, payment policy and adoption of new standards) and misstatements (e.g. deferred income) which relate to areas which were prepared by a member of the finance team and subjected to separate review by management. For example, the error in deferred income continued undetected for a number of months, which suggests the review process is not robustly applied. Although the deficiencies and misstatements identified are immaterial, they could easily have been material.</p> <p>Those reviewing and approving journal entries need to ensure that they allow sufficient time for the review, confirming that the entry is appropriate and in line with relevant standards, and checking the arithmetical and formulaic accuracy of entries. The speed by which some approvals are provided and the errors identified suggests that such detailed reviews are not carried out.</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

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 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 16.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the performance report is consistent with the disclosures in the financial statements.

	Requirement	Deloitte response
The Performance Report	The report outlines HIS' performance, both financial and non-financial. It also sets out the key risks and uncertainty 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.</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> <p>A number of areas for improvement were identified during our audit and these have been addressed to a degree by management, as discussed on page 17. Given the recurring nature of these points, a specific recommendation on the preparation of the annual report has been included at page 30.</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. As with the Performance Report, a number of improvements have been identified and actioned by management in the year, discussed on page 17.</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.	We have confirmed that the 2018/19 Annual Operating Plan was approved by HIS on 20 March 2019 and included draft budgets for 2019/20, 2020/21 and 2021/22. HIS has forecast a breakeven position over the three year period. We have concluded that the plan is sufficiently robust to demonstrate that Healthcare Improvement Scotland will be a going concern for at least 12 months from signing the accounts. We note that confirmation was received that the Scottish Government are happy to sign off the plan.

Your annual report (continued)

Audit Scotland have issued a series of Good Practice notes to highlight where Annual Reports can be improved. We have provided below some extracts which should be considered by HIS in drafting future Annual Reports. We have also benchmarked the length of the Annual Report against other NHS bodies.

Length of performance report

The following areas for improvement were identified when reviewing HIS' Annual Report:

- Reduce the length of the performance overview and achieve a greater balance between overview and analysis, through use of graphics/pictures, signposting to web pages and by placing non-summary information in the analysis section rather than the overview.
- The performance report in total could be reduced: the average is 10 pages, whereas HIS had 14 in the draft Annual Report. This should be reviewed in total and irrelevant information removed, with graphics/pictures/tables used to reduce unnecessary narrative.

We welcome the changes that management have made in relation to the above points in the 2018/19 Annual Report. Going forward, management should review their Annual Report against updated requirements, guidance and expectations to ensure a culture of continuous improvement in the Annual Report process is embedded.

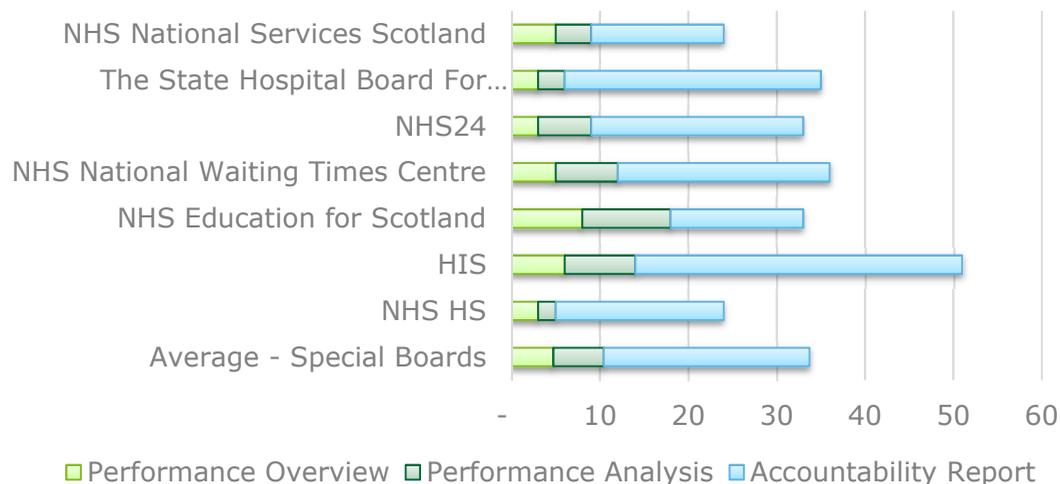
Length of accountability report

The following areas for improvement were identified when reviewing HIS' Annual Report:

- HIS needs to strike a balance in the level and type of information provided. There is a risk that by providing too much information the significant risks are lost in the detail.
- In the draft Annual Report, HIS' Accountability Report was 37 pages long, significantly in excess of the average of 23, suggesting scope for reduction.

We are aware that Internal Audit have reviewed the governance statements against the FReM requirements, and have concluded in line with our conclusion on page 20 that it complies with the requirements. However, there is significant additional information in the governance statement and overall Accountability Report which is not required. A checklist of the 10 items which are required to be included in the Accountability Report is outlined in the Technical Guidance Note provided to management in early 2019. Going forward, management should review the Accountability Report against these requirements and exclude unnecessary information.

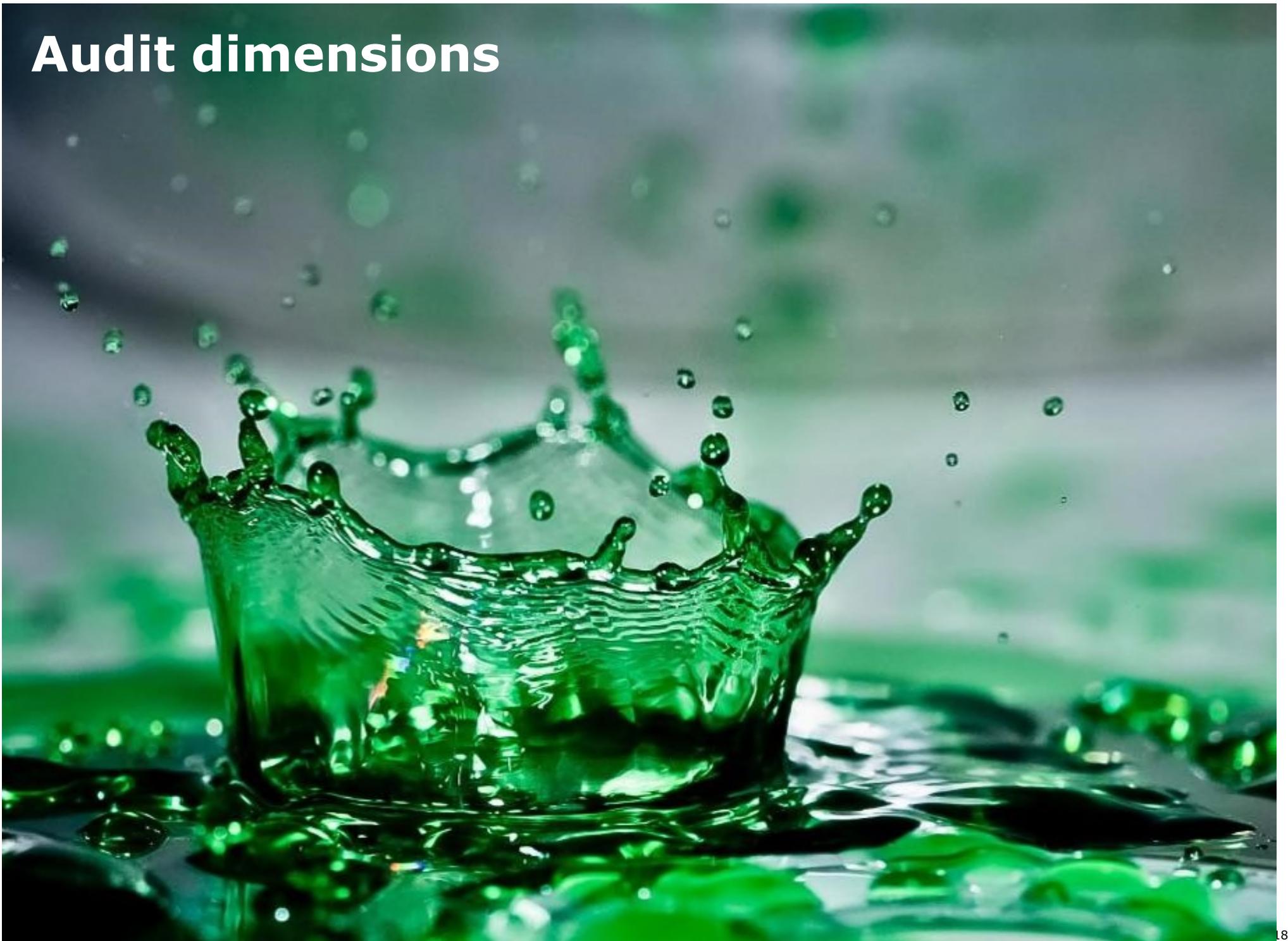
Special Boards – Length by section of 'Front Half' of Annual Report (2017/18)



We have reviewed HIS' Annual Report against comparable NHS bodies. This shows that HIS is historically a significant outlier – with the performance report 40% longer than the average, and the accountability report 60% longer.

A list of comments for improvement was provided to management with a recommendation that these be implemented for 2018/19. Deloitte are pleased to note that these were actioned during the year-end audit.

Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, due to the relative size and scale of the functions delivered by HIS, 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 HIS 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.

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 audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific 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 – Changing landscape for public financial management

SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Governance statement

Overview

The FReM requires a **governance statement** to be published with the financial statements. Guidance on content is provided in the governance statements section of the SPFM which sets out the essential features.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the SPFM. There is also a risk that the statement is inconsistent with our knowledge as auditors of HIS or is potentially misleading.

Deloitte View

We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. No inconsistencies have been noted.

We have also reviewed the governance statement to assess compliance with the SPFM and have confirmed that it follows the format and content of the SPFM, incorporating all essential features.

We have reviewed HIS' 'Blueprint for Good Governance' responses and associated action plan and note that HIS considers it generally has good governance arrangements in place and has identified clear actions to address the few areas where it considers improvement is required.

Financial sustainability

Overview

Financial sustainability looks forward to the medium and longer term to consider whether HIS is planning effectively to continue to deliver its services or the way in which they should be delivered.



Areas considered

As identified in our audit plan, we considered a number of risks which have been identified by Audit Scotland as being applicable across the NHS, as follows:

- HIS' long-term financial planning is inconsistent with the Scottish Government's five-year plan; and
- The underlying financial performance of HIS is not transparently reported.

Financial sustainability (continued)

Short-term financial balance

HIS achieved a breakeven position in 2018/19. In the 2018/19 budget, HIS identified a cost gap of £1.988m on the assumption that this gap would be closed through in-year savings. In the event, a total of £2.567m of savings were achieved. However, it should be noted that only £0.555m (22%) of the savings achieved were recurring.

HIS was reporting an underspend throughout the year and forecasting a year-end breakeven position, with this regularly reported to the Board and closely monitored.

While it is poor practice to agree budgets based on unidentified savings, we commend HIS on the level of savings achieved (although there needs to be a focus on achieving recurring savings) and are pleased to note that the 2019/20 budget has been agreed with the requisite savings identified.

The 2019/20 budget notes a cost gap of £0.458m. HIS has identified recurring savings to close this gap and deliver a balanced budget. Given HIS' historical performance, strong monitoring arrangements and the early identification of recurring savings, we are satisfied that HIS can achieve short-term financial balance in 2019/20.

Medium-term financial planning

A body is considered to be financially sustainable if it: (i) has adequate reserves; (ii) is spending within budget; and (iii) has credible medium-term plans in place. While HIS has achieved a break-even position in 2018/19 and is forecasting to do so for 2019/20, its medium-term plan only covers the period to 2021/22 and identifies a cost gap which increases from 1.3% to 7.6% in that timeframe, with insufficient plans currently in place to address this gap. Given these issues, it is not possible to conclude that Healthcare Improvement Scotland is in a financially sustainable position.

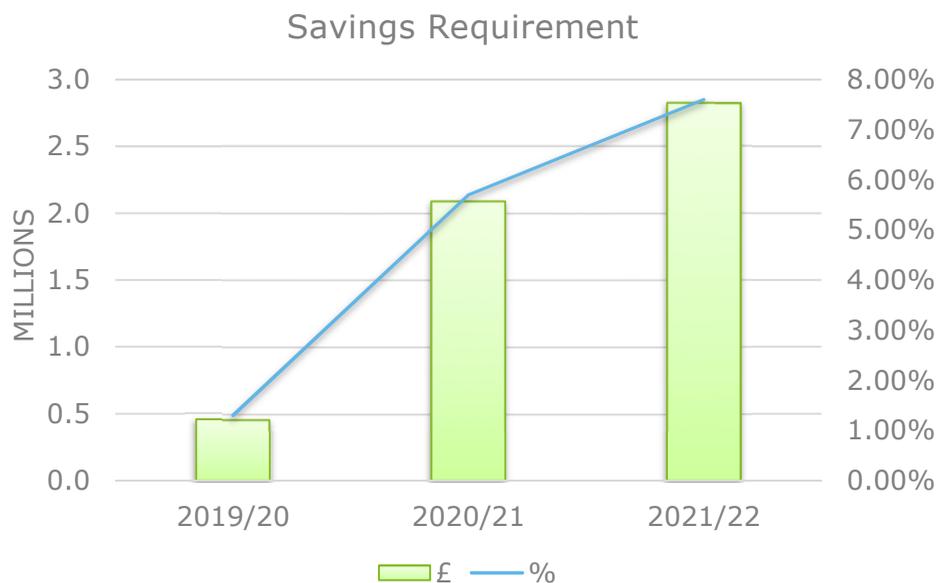
While Healthcare Improvement Scotland complies with Scottish Government requirements to have a three-year Annual Operational Plan, it does not have a longer-term (e.g. 5-10 year) financial plan and should begin the process of preparing this, in line with good practice. This should be linked to the five-year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government's five-year Medium-Term Financial Strategy.

The Annual Operating Plan quantifies a significant cost gap over the coming three years - increasing from 1.3% in 2019/20 to 7.6% in 2021/22. However, it does not quantify the anticipated impact transformational change will have nor are targets included. While HIS achieved its savings target in 2018/19, this was primarily through non-recurring means (78%). Across the NHS in Scotland, recurring savings account for 50% of savings achieved, with HIS relying on non-recurring means by a significantly larger degree than other health boards.

There needs to be an increased focus on longer-term planning, with clear savings targets agreed and reported to the Board on a regular basis. Given the need for longer-term thinking (which is inherently linked to recurring, rather than non-recurring savings), we are pleased to note that HIS has allocated funding for 'change management' and is in the process of developing a 'change programme'.

There is no indication in HIS' Annual Operating Plan that the Scottish Government's Medium-Term Financial Strategy has been considered. The assumptions diverge to a degree from the MTFs but have been agreed separately with the Scottish Government.

There is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.



Financial sustainability (continued)

Focus on outcomes

HIS references outcomes throughout its Annual Report, however, it does not indicate what outcomes it is aiming to progress, nor does it provide any information on when these are to be achieved by, progress against them and actions taken to remediate areas where performance is not as expected. HIS' five-year strategy is clearly aligned with the National Outcomes on Health and Wellbeing, with this supported by the annual operational plan. The outcomes and objectives set out in the operational plan would be improved by including a clear link against each to one of the National Outcomes or 'strategic priorities' of the Board, ensuring that the focus in each year is aligned with the five-year strategy.

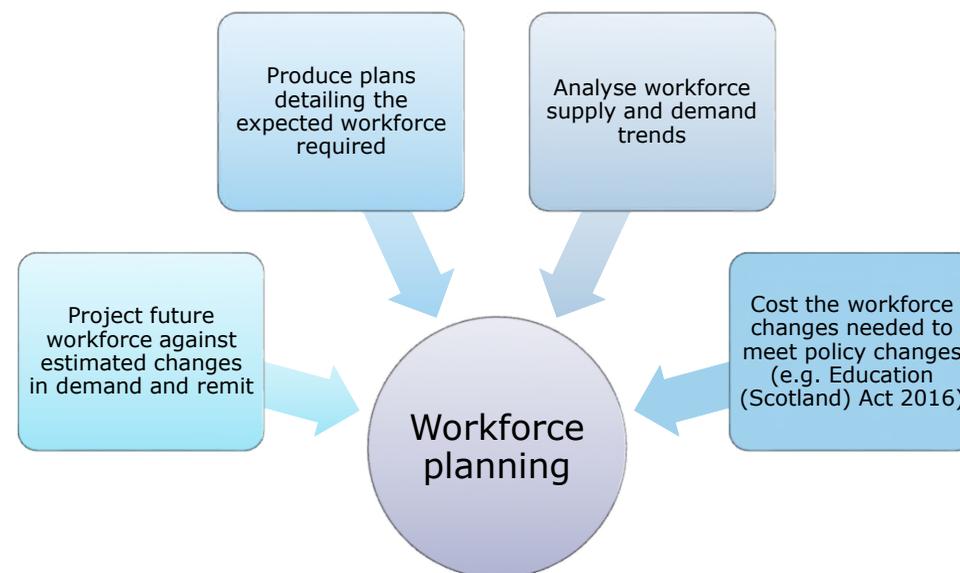
HIS also needs to make a clear link between the use of resources and outcomes achieved. At present, it is not clear what amount of resources are expected to be utilised in delivering each strategic priority or National Outcome. Including the anticipated resource use in the operational plan - which is then itself linked to the strategic priorities - will enable the Board to monitor which strategic priorities are receiving the most resources and improve scrutiny of performance against each priority. It will also enable the Board to better identify areas where resources can be reallocated as priorities evolve and progress develops.

Workforce planning

HIS has a detailed workforce plan which is updated annually and linked to the five-year strategy and annual operational plan. Workforce planning is appropriately regarded by HIS as an ongoing process. There is detailed analysis on leavers and joiners in the year, with clear actions for the coming year linked to identified workforce needs.

There is a clear link to workforce development, aligned with defined roles and responsibilities. In line with good practice, the plan considers workforce behaviours, covering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and productivity changes. We commend HIS for this level of detail - understanding these issues enables the organisation to plan appropriately.

Although the workforce plan is of a high quality, improvements in line with recently issued guidance can be made, particularly in relation to projecting the medium to longer-term workforce against estimated changes in demand and remit and costing the changes in workforce required.



Deloitte View – Financial sustainability

As discussed on page 22, HIS achieved financial balance in 2018/19 and has identified the required savings to prepare a balanced budget for 2019/20. The position over the medium term is more serious, with HIS identifying an annual cost gap of £2.824m (7.6%) by 2021/22. As HIS lacks any clear savings plans, is heavily reliant on non-recurring savings and its change programme is still in development, we have concerns about the financial sustainability of HIS.

The assumptions in HIS' Annual Operating Plan diverge to a degree from the MTFs but have been agreed separately with the Scottish Government. There is room for improvement in increasing the period covered by the plan and outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.

HIS has high-quality workforce planning arrangements in place. Amendments in line with recently issued good practice by Audit Scotland should be incorporated in the plan in 2019/20.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work that HIS has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>HIS has appropriately assessed and planned for the potential impact of EU withdrawal. In particular, HIS has considered each area outlined across to a level appropriate to the organisation.</p> <p>There has been reporting to the Board on what actions HIS are taking locally and what actions are being progressed nationally, with further detail on the impact of EU Withdrawal discussed at Board seminars.</p> <p>HIS note that EU Withdrawal is considered to be a low risk area in relation to workforce issues and EU Withdrawal is not expected to have a significant impact on HIS' workforce.</p> <p>Funding for HIS is almost entirely received from the Scottish Government and there is therefore no anticipated direct impact as a result of EU Withdrawal on the organisation.</p> <p>HIS have identified the regulation of medicines as a medium risk for the organisation, with work being done at both a local and national level to prepare for changes to such regulation on EU Withdrawal. HIS is working closely with the Brexit Healthcare Alliance and the National Institute for Health and Care Excellence in this area.</p> <p>While HIS is well prepared for EU Withdrawal, it needs to continue to maintain a watching brief on developments and continually assess the need for documented contingency planning for a 'no deal' withdrawal.</p>
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 21 – 23) we have considered how HIS has reviewed the potential implications of the Scottish Government's Medium Term Financial Strategy for its own finances, including long-term planning.	HIS' Annual Operating Plan does not discuss the Scottish Government's MTFS. The assumptions diverge to a degree from the MTFS but have been agreed separately with the Scottish Government. There is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	No specific risks around dependency on key suppliers have been identified. While HIS has a number of key suppliers - such as NHS National Services Scotland - these are public bodies providing services to HIS and their functions would be assumed by another public body if they ceased to exist.
Openness and transparency	We have considered HIS' approach to openness and transparency through our wider scope work (see page 25).	HIS has a good culture in relation to openness and transparency, in terms of both attitude and process. However, there is room for improvement and the Board needs to ensure its approach to openness and transparency keeps pace with public and regulatory expectations. HIS should review its approach to openness and transparency, considering wider expectations, developing an action plan in conjunction with the Board and wider stakeholders to ensure that HIS is always striving for more.

Other specific risks (continued)

Openness and transparency

Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



Audit Scotland: Notes for guidance, Openness and transparency

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfied the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered HIS' approach to openness and transparency, how good the organisation's information is; and its commitment to improving openness and transparency and concluded that in general, Healthcare Improvement Scotland has a good attitude to openness and clear processes to ensure transparency. There is a supportive culture that underpins this.

We welcome actions which have been taken in the year to improve the extent of openness and transparency at the organisation, such as establishing a clear Terms of Reference for the Board which sets out stringent rules for matters being considered in reserved business and carrying out a review of the Terms of Reference of all governance committees. We are also pleased to note that the Board has recently agreed on its 'priority' stakeholders and is in the process of developing a Stakeholder Engagement Action Plan.

While we welcome the above actions, there is no regular review of HIS' position on openness and transparency, nor any benchmarking of their approach with others in the NHS or other public bodies. HIS should consider openness and transparency at Board level, reaching a reasonable position on how to be increasingly open and transparent through a process of consultation (including discussion with wider stakeholders).

When reviewing its approach, we would urge HIS to be mindful that there is a presumption that all key decisions made are debated and made in public and that the material that is prepared supporting those decisions should be public. Where discussions and decisions need to be made in private, clear statements as to why that is the case contributes to openness and transparency.



Audit Scotland: Notes for guidance, Openness and transparency

Other requirements

Fraud considerations

Standards of conduct for prevention and detection of fraud and error

We have reviewed HIS' arrangements for the prevention and detection of fraud and irregularities. Overall we found HIS' arrangements to be appropriately designed and implemented.

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor HIS' participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019, which concluded that HIS was fully engaged in the exercise. We recommend that HIS consider using the NFI real time matching facilities in order to enhance assurances over their internal controls and improve their approach to risk management.

A summary of the matches reported in the NFI system is provided in the table below which notes that no frauds or errors have been identified from the matches processed to date.

	Total
Total matches flagged	270
Total recommended matches to be investigated	85
Total processed	13
Frauds	0
Errors	0
Savings	0

Deloitte view

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

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 and Risk 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; and
- 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.

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 again in this report.

This report has been prepared for the Audit and Risk 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.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

29 May 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/(credit) SoCNE £k	Debit/(credit) in net assets £k	Debit/(credit) prior year retained earnings £k	Debit/(credit) in revenue £k
Misstatements identified in current year					
Deferral of independent clinic income	[1]	71	(71)	-	-
Classification of trade payables	[2]	-	-	-	-
Total		71	(71)	-	-

[1] HIS defers income on both continuation and registration fees from independent healthcare clinics. Continuation fees are charged per annum and paid up front, with amounts deferred on a monthly basis in line with the period charged for. HIS incorrectly started releasing deferred income from continuation fees 5 months early, meaning that operating income recorded as at 31 March 2019 was overstated by £71k, with deferred income being understated by the corresponding amount.

[2] HIS received a credit note from NHS Salford for £42k and are in the process of checking if they can offset this going forward or if they will need to ask them for a cash refund to clear the account. HIS have offset this against trade payables, resulting in a negative trade payables balance. The amount should be classified as a debtor as it is an amount owing to HIS.

No other corrected misstatements have been identified from our audit work performed to date.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit and Risk Committee to evaluate the impact of those matters on the financial statements. While we have identified a number of changes in relation to related parties, the remuneration report, the adoption of new accounting standards and the payment policy disclosure, these have been corrected by management. We have noted no uncorrected material disclosure deficiencies in the course of our audit work to date.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability</i>	<p>While HIS complies with Scottish Government requirements to have a three-year Annual Operating Plan, it does not have a longer-term (e.g. 5-10 years) financial plan and should begin the process of preparing this, in line with good practice. This should be linked to HIS' five-year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government's five-year MTF5.</p> <p>HIS needs to ensure that it's medium-term financial outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes.</p> <p>(See page 21 for more information.)</p>	<p>As noted, HIS' financial plan is consistent with Scottish Government requirements. The financial plan is also consistent with the five year strategy document which runs through to 2022.</p> <p>As part of the 2020 planning process HIS will expand its financial plan to 5 years and ensure that it's medium-term financial plan outlines how anticipated spend over the medium term aligns with the key themes on public service reform.</p>	Director of Finance & Corporate Services	31/3/2020	High
<i>Financial Sustainability</i>	<p>HIS needs to improve the detail in its Annual Report on what outcomes it is aiming to progress, providing information on when these are to be achieved by, progress against them and actions taken to remediate areas where performance is not as expected.</p> <p>The outcomes and objectives set out in the operational plan would be improved by including a clear link against each to one of the National Outcomes or 'strategic priorities' of the organisation, ensuring that the focus in each year is aligned with the five-year strategy.</p> <p>HIS needs to make a clear link between the use of resources and outcomes achieved in its key financial planning documents. This means including the anticipated resource use in the operational plan - which is then itself linked to the strategic priorities - to enable the Board to monitor which strategic priorities are receiving the most resources and improve scrutiny of performance against each priority.</p> <p>(See page 21 for more information.)</p>	<p>We are currently reviewing information provided as part of Business Performance Reporting. We will use the appropriate metrics identified to set targets and monitor performance throughout 2019/20 and use as commentary for the 2019/20 Annual Report.</p> <p>Metrics will be linked to strategic priorities.</p>	Director of Finance & Corporate Services	31/3/2020	High
<i>Annual Report</i>	<p>HIS Annual Report has remained consistent in terms of content, style and length between 2012/13 and 2018/19. Given the changing focus of the Scottish Government, evolving public expectations and a need to demonstrate a focus on continuous improvement and delivery of outcomes, HIS needs to critically consider how it can improve the consistency and conciseness of the Annual Report whilst maintaining appropriate comprehensiveness.</p> <p>(See page 17 for more information.)</p>	<p>Following this annual accounts cycle we will conduct a review of how to approach the Annual Report for 2019/20 to ensure that it is appropriate for the next cycle of annual accounts. This will include assistance from elsewhere within the organisation.</p>	Director of Finance & Corporate Services	30/4/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Openness & Transparency</i>	<p>HIS should consider its approach to openness and transparency at a Board level, reaching a position on how to be increasingly open and transparent through a process of consultation and developing an associated action plan.</p> <p>(See page 25 for more information.)</p>	This will be considered during 2019/20 as part of the review of governance arrangements within HIS.	Director of Finance & Corporate Services / Chair of the Board	31/12/2019	Medium
<i>Internal Controls</i>	<p>Those reviewing and approving journal entries need to ensure that they afford sufficient time to the review, confirming that the entry is appropriate and in line with relevant standards, and checking the arithmetical and formulaic accuracy of entries. The speed by which some approvals are provided suggests that such reviews are not carried out. Given the issues identified in the year that resulted in an error of £71k, we would encourage management to request Internal Audit to consider such controls in 2019/20.</p> <p>(See page 14 for more information.)</p>	All Journals in excess of £50,000 are separately reviewed. A secondary control is exercised through variance analysis within the budgetary control system. The specific error referred to was a human error, and would have been difficult to detect from a journal review. As noted below we will develop the CRM system to provide improved insight with respect to IHC income, minimising this risk of this error reoccurring. We will also consider controls in this area with Internal Audit.	Head of Finance & Procurement	31/12/2019	Medium
<i>Financial Sustainability</i>	<p>HIS should make improvements in line with recently issued guidance to its workforce planning arrangements, particularly in relation to projecting the medium-to-longer term workforce against estimated changes in demand and remit and costing the changes in workforce required.</p> <p>(See page 22 for more information.)</p>	Costing of the workforce plan is included within the current 3 year financial plan. Longer-term workforce planning will be considered alongside longer-term financial planning.	Director of Finance & Corporate Services / Associate Director of Workforce	31/3/2020	Low

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Deferred Income</i>	<p>The CRM system used by the independent healthcare clinic team already enables reports to be run on registered clinics, but not on those going through registration. The CRM system should be enhanced to enable reports to be run on registrations in progress, by stage of progress, including what fee has been received, automatically calculating the amount of income to be deferred. This will remove duplication of effort by the independent healthcare clinic team and finance, reduce the time involved in maintaining the information, and result in more accurate information.</p> <p>(See page 9 for more information.)</p>	Agreed. We will develop the CRM system during 2019/20 to provide more detailed reporting on IHC.	Head of Finance & Procurement	31/12/2019	Low
<i>Provisions</i>	<p>Although management have considered the dilapidations provisions at a high level and are satisfied that the provision is reasonable, HIS should have the dilapidations provision re-estimated in 2019/20, being 10 years after it was last valued and now close to the end of the lease for Delta House. Thereafter, HIS should keep a specific log of all additions and disposals from Delta House and outline the impact this has on the provision, with the year-end provision updated by inflation each year.</p> <p>(See page 12 for more information.)</p>	Agreed. We will review the provision during 2019/20 and adjust if appropriate.	Director of Finance & Corporate Services	31/12/2019	Low

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report and are pleased to note that 2 of the total 4 recommendations made have been fully implemented, as outlined below. We will continue to monitor these as part of our audit work in 2019/20.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Annual Report	<p>We noted that the HIS performance report and governance statement are much longer than the NHS territorial boards, suggesting scope for reduction. While not directly comparable due to the unique nature of HIS, this does provide a useful benchmark.</p> <p>We recommend that HIS review the good practice notes published by Audit Scotland and consider areas where disclosure could be reduced or presented in a different format to help ensure that key messages and risks are fully understood by the reader.</p>	<p>We are content with the length of the reports which we feel need to adequately explain the role and nature of HIS and to meet the needs of transparency. We will however review future statements in the light of good practice.</p>	Director of Finance & Corporate Services	31/3/2019	Medium	<p><i>Fully implemented:</i> Management have substantially amended the format, content and style of the Annual Report in line with this recommendation, ensuring the Annual Report provides comprehensive but concise information on performance in the year.</p>
Annual Report	<p>We noted that the draft annual report was not available until towards the end of our on site audit. We would recommend that a clear timetable is agreed for drafting the annual report to ensure that it is aligned to the audit timetable.</p>	<p>We agree that further steps could be taken in conjunction with External Audit to clarify at an early planning stage future audit timetable including deliverables which would benefit both parties.</p>	Director of Finance & Corporate Services	31/1/2019	Medium	<p><i>Fully implemented:</i> The draft financial statements were available in a timely manner for the 2018/19 audit. We are grateful to management for working with us in this regard and encourage them to maintain this target going forward.</p>

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Financial Sustainability	<p>In review of arrangements in relation to financial sustainability it was noted that the Local Delivery Plan provided forecast budgets and expenditure in line with the LDP guidance, but there is no long-term financial planning in place.</p> <p>In line with best practice advocated by Audit Scotland, we recommend that HIS should introduce longer-term financial planning.</p>	<p>Significant work has taken place to produce 3 year plans for finance, workforce and LDP. Scenario planning is incorporated within the finance plan to test variations in the financial assumptions and prove sustainability over this timeframe.</p> <p>Our judgement is that medium-term financial planning (3 years) is appropriate considering the nature of organisation and our funding streams. Longer-term financial planning is taking place in collaboration with other national boards and discussion has taken place around the potential impact of Brexit. These will all be reflected in future financial planning as soon as there is more certainty about their impact and will be overseen by the Audit & Risk Committee.</p>	Director of Finance & Corporate Services	31/3/2018	Medium	<p><i>Not implemented:</i> This recommendation will be monitored alongside the updated recommendation on the medium-term financial planning from 2018/19, on page 30.</p> <p>Updated management response: The Cabinet Secretary announced in the Scottish Parliament on 4 October 2018 that NHS Boards would move to a three year planning and performance cycle. This supports the delivery of the Health and Social Care Medium-Term Financial Framework. HIS has prepared and submitted its Local Delivery Plan which contains 3 year financial projections in line with this guidance.</p> <p>Updated target date: 31/3/2020</p>

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Financial Sustainability	<p>Healthcare Improvement Scotland intend to set defined outcomes for the work undertaken and measure how major projects have contributed to improvements in key health outcomes.</p> <p>We would recommend that the Board progresses this initiative of linking major project spend to outcomes as quickly as possible and we will monitor progress on this during the period of our appointment.</p>	<p>During 2017/18 the original evaluation model was amended and improved. All of HIS' work is now aligned to the 5 priorities as defined within the Making Care Better Strategy 2017-22. This includes the introduction of a 'Level one' performance report which measures work against activity and is reviewed by the Quality Committee with exception reporting being made to the Board from the Quality Committee; and a 'Level two' performance report that measures all key work against agreed outcome measures and is reviewed by the Board biannually. There is additionally a 'Level three' report which reports on specific case examples of how HIS are making a difference.</p>	Director of Finance & Corporate Services	31/3/2018	Medium	<p><i>Fully implemented:</i> HIS has reviewed and continues to monitor its performance reporting arrangements to ensure these are effective.</p> <p>Updated management response: Performance management reporting evolved throughout 2017/18. HIS adopted a two tier reporting structure to provide governance and assurance to the Quality Committee and the Board.</p> <p>The Quality Committee level one report was produced quarterly and reported against our strategic priorities, activities and associated risks within the Operational Plan.</p> <p>The Board received the level two Measuring Our Impact report twice a year which reported against the impact of each of the Outcomes set within the Operational plan.</p> <p>More recently, the Board completed a self-assessment against the Governance Blueprint led by the new Chair and accounting for the considerable changes to Board Membership. It was agreed to convene a working group to review and re-design performance reporting with guidance from the Board to ensure that reporting provides them with the level of assurance required for them to discharge their duties.</p>

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

We have also asked HIS 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 achievement of expenditure resource limits and management override of controls as key audit risks for your organisation.

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

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

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

Concerns:

No concerns have been identified 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 The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £26,820 as broken down below:

Auditor remuneration	£ 22,780
Audit Scotland fixed charges:	
Pooled costs	2,670
Audit support costs	1,370
Total fee	26,820

No non-audit fees have been charged by Deloitte in the period.

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 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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