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Introduction

The key messages in this report

I have pleasure in presenting our final report to the Audit Committee of NHS Health Scotland ('NHS HS') 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 NHS HS, 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 NHS HS and the services that it delivers over the medium to longer term.
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 NHS HS.
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. NHS HS met its financial targets for 2018/19.
No misstatements in excess of our reporting threshold of £19k have been identified up to the date of this report. We identified a number of disclosure deficiencies which have been corrected by management, as disclosed on page 27.

Status of the financial statements audit
Outstanding matters to conclude the audit include:
- Completion of work for the Assurance Statement on the consolidation templates;
- 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 NHS HS. 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** – While the Board is aware of its funding gap in the short-term and is taking action to address this, it has not taken action to either quantify or address any potential funding gap beyond 2019/20. This is on the assumption that transition to Public Health Scotland will be complete by the end of 2019/20. NHS HS has a five year strategy for the 2017-22 period and carries out detailed planning on a year by year basis. Due to the planned transition to Public Health Scotland which is now expected to be operating from 1 April 2020, deferred a year from its original vesting date, it has therefore ceased to carry out detailed planning – in many areas, not isolated to financial planning – beyond the short-term. This assumption underpinned the same lack of planning in the prior year.

We recognise that NHS HS and National Services Scotland – Public Health and Intelligence (‘NSS – PHI’) have already reached preliminary agreement on joint planning for 2020/21. Adopting this approach, and taking cognisance of the considerable work involved in setting up the new body, management and the Board have given assurance that there is appropriate planning to deliver services and achieve their objectives, accepting that NHS HS may cease to exist before the completion of the 2017-22 strategy but that the progress made in the strategy will help guide the new public health body in its development. Until NHS HS ceases to exist, management and the Board need to continue to ensure they are appropriately planning to deliver services and achieve their objectives.

Our detailed findings and conclusions are included on pages 17 to 24 of this report.

Next steps

An agreed Action Plan is included at pages 28 – 30 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 NHS HS by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help NHS HS promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout this report, our separate ‘Sector Developments’ report and the sector development and technical updates provided to the Audit Committee throughout the year.

In particular, we have worked with management to substantially improve the annual report through an increased focus on the narrative sections of the report and encouraging management to ‘cut the clutter’.

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
- Governance and transparency

Final audit report
In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business
As noted in our planning report, NHS HS continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services.

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.

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.

Materiality
Materiality of £396k and performance materiality of £336k has been based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £19k.

Scope of the audit
We have audited the financial statements for the year ended 31 March 2019 of NHS Health Scotland.

Timeline 2018/19

November 2018
Meetings with management and other staff to update understanding of the processes and controls.

May 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

31 March 2019
Year end

24 May 2019
Audit close meeting

7 June 2019
Audit Committee meeting

21 June 2019
Accounts sign off
Financial statements audit
## Significant risks

### Dashboard

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<th>Risk</th>
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<th>Controls testing conclusion</th>
<th>Consistency of judgements with Deloitte’s expectations</th>
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<td>Achievement of expenditure resource limit</td>
<td>✔️</td>
<td>✔️</td>
<td>D+I</td>
<td>Satisfactory</td>
<td>Green symbol</td>
<td>Satisfactory</td>
<td>9</td>
</tr>
<tr>
<td>Management override of controls</td>
<td>✔️</td>
<td>✔️</td>
<td>D+I</td>
<td>Satisfactory</td>
<td>Green symbol</td>
<td>Satisfactory</td>
<td>10</td>
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_D+I_: Testing of the design and implementation of key controls.
Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified
There is a key financial duty for NHS HS to comply with the Revenue Resource Limit set by the Scottish Government Health and Social Care Directorate (SGHSCD).

There is a risk that NHS HS could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position or reduce the level of brokerage required. The significant risk is therefore pinpointed to 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 NHS HS by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

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

We confirm that NHS HS has performed within the limits set by SGHSCD and therefore is in compliance with the financial targets in the year.
Significant risks (continued)

Risk 2 - Management override of controls

**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 11.

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

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

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

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

**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 2 - Management override of controls (continued)**

**Key judgements**

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

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

<table>
<thead>
<tr>
<th>Estimate / judgement</th>
<th>Details of management’s position</th>
<th>Deloitte Challenge and conclusions</th>
</tr>
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<tbody>
<tr>
<td><strong>Clinical Negligence and Other Risks Indemnity Scheme (‘CNORIS’) provision</strong></td>
<td>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs about this threshold are reimbursed from the CNORIS scheme by the Scottish Government. NHS HS provide for all claims notified by the NHS Central Legal Office, according to the value of the claim. There are no claims specific to NHS HS included in the provision.</td>
<td>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 NHS HS by the Central Legal Office. In 2018/19, this amount is £nil as there are no specific claims against NHS HS 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.</td>
</tr>
<tr>
<td><strong>Accruals</strong></td>
<td>Accruals relating to NHS HS operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Expected credit loss (IFRS9)</strong></td>
<td>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. Of the receivables balance, only £43k relates to non-public sector debtors and as such no expected credit loss has been recognised. There has been no transition adjustment on adoption of IFRS 9.</td>
<td>We have reviewed the approach adopted under IFRS 9. The decision not to provide for any expected credit loss is reasonable based on the current makeup of the receivables balance. The risk of material credit losses is remote. Given that the amount provided 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.</td>
</tr>
<tr>
<td><strong>Injury benefit provision</strong></td>
<td>NHS HS has provided for awards under the permanent injury benefits scheme, in discussion with the Scottish Government under the AME provision resource limit. The provision is based on information and advised annual rates provided by the SPPA, under the NHS Superannuation Scheme and estimated remaining lives of recipients derived from interim life tables for Scotland produced annually by National Statistics. The sum provided is recalculated annually based upon changes in their annual rates and period life expectancy at the balance sheet date. The provisions are discounted at the rate set by HM Treasury.</td>
<td>Deloitte have confirmed the injury benefit award to confirmation from the Scottish Government, and recalculated the provision required based on information obtained directly from the SPPA, National Statistics and HM Treasury. Our legal confirmation obtained directly from the CLO provides assurance that the provision is complete and no other claimants ought to be included. No issues were noted in the testing performed.</td>
</tr>
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Other matters
Implementation of IFRS9 and IFRS15

Matter identified

NHS HS 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, NHS HS 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 IFRS 15.

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 IFRS 15.

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 NHS HS, 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 NHS HS and has resulted in no provision being recorded, given that receivables are immaterial and primarily consist of amounts owing by other public sector bodies.

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. 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, NHS HS’ policies with regards to providing for bad debt have not yet been updated. We have highlighted this to management.

For IFRS 15, a central analysis was prepared of NHS HS’ main contracts, for which no significant changes are required under IFRS 15 as over 99% of income is received from the Scottish Government, which falls under IAS 20. 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.
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.

While there are plans for NHS Health Scotland to cease operations in 2019/20 on transition to a new public health body, this is a machinery of government change. It is therefore appropriate to continue to adopt the going concern basis.

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.

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

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<th>Requirement</th>
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<tr>
<td>The Performance Report</td>
<td>The report outlines NHS HS’ performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operating Plan. We have assessed whether the performance report has been prepared in accordance with the accounts direction. We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. 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 15.</td>
</tr>
<tr>
<td>The Accountability Report</td>
<td>Management have ensured that the accountability report meets the requirements of the Financial Reporting Manual (‘FReM’), comprising the governance statement, remuneration and staff report and the parliamentary accountability report. 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. 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 15. We have also audited the auditable parts of the remuneration and staff report and, following some minor adjustments arising from the audit, confirmed that it has been prepared in accordance with the accounts direction.</td>
</tr>
<tr>
<td>Going Concern</td>
<td>Management has made appropriate disclosure relating to Going Concern matters. We have confirmed that the 2018/19 Annual Operating Plan was approved by NHS HS on 20 March 2019 and included draft budgets for 2019/20 only, given that the intention is for NHS HS to be wound up by the start of 2020/21. NHS HS has forecast a breakeven position over the coming year. We have concluded that the plan is sufficiently robust to demonstrate that NHS Health 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. While there is uncertainty around the timing of to the establishment of Public Health Scotland, the functions delivered by NHS HS will continue under the new body, therefore the adoption of a going concern basis is appropriate, in accordance with the FReM.</td>
</tr>
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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 NHS HS in drafting future Annual Reports. We have also benchmarked the length of the Annual Report against other NHS bodies.

**Length of performance reports**
The following areas for improvement were identified when reviewing NHS HS’ Annual Report:

- 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 is of appropriate length: the average for comparable bodies is 10 pages, whereas NHS HS has 5.

A checklist of the 13 items which are required to be included in the Performance Report is outlined in the Technical Guidance Note provided to management in early 2019. Going forward, management should review the Performance Report against these requirements to ensure it gets the balance between the overview and analysis right.

**Length of governance statement**
The following areas for improvement were identified when reviewing NHS HS’ Annual Report:

- NHS HS should include detail on the transition to Public Health Scotland.
- NHS HS should include details on the Board’s self-assessment procedures and outcome of the Blueprint for Good Governance review.

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 to ensure it includes everything required.

A list of comments for improvement, including the above, have been provided to management with a recommendation that these be implemented for 2019/20. Deloitte accepted that the timescale for applying all the improvements in the current year was not achievable but we are satisfied that the accounts are FReM compliant and all FReM required changes have been made.

We have reviewed NHS HS’ Annual Report against comparable NHS bodies. This shows that NHS HS is at the lower end – with the performance report 50% shorter than the average, and the accountability report 20% shorter. Despite this, we are pleased to note that the level of information provided is sufficient to enable users to understand the operations of the Board and the Annual Report is compliant with regulations.
Audit dimensions
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 NHS HS, 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 NHS HS 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 NHS HS 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. As discussed on page 15, a number of improvements to the governance statement have been identified through our audit to ensure it is compliant with the SPFM.

We have reviewed NHS HS’ governance self-assessment responses and note that NHS HS considers it generally has good governance arrangements in place and therefore there is no need for a specific improvement plan to be developed.
Financial sustainability
Overview

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

Audit risks

Within our audit plan we identified a number of risks, as follows:

- NHS HS may fail to properly prepare for transition, or it may overly-prioritise transition to the detriment of service delivery;
- NHS HS’ long-term financial planning is inconsistent with the Scottish Government’s five-year plan; and
- The underlying financial performance of NHS HS is not transparently reported.
Financial sustainability (continued)

Short-term financial balance

NHS HS was reporting an underspend throughout the year and forecasting a year-end breakeven position, with this regularly reported to the Board and closely monitored. The actual position was an underspend greater than that forecast during the year.

NHS HS achieved a breakeven position in 2018/19, reporting an underspend of £343k. In the 2018/19 budget, the Board noted and approved a funding gap of £325k on the assumption that this gap would be closed through in-year savings. In the event, NHS HS has achieved the £325k savings required for contribution to the National Boards savings target, plus a further contribution of £60k, and has reported a further underspend of £343k; essentially achieving double the required savings. While it is poor practice to agree budgets based on unidentified savings, we commend NHS HS on the level of savings achieved.

The 2019/20 budget notes a funding gap of £270k. NHS HS has noted in its financial plan that it plans to close the funding gap through managing staff turnover. Given the Board’s historical performance, strong monitoring arrangements and the early identification of recurring savings, we are satisfied that NHS HS can achieve short-term financial balance in 2019/20. While NHS HS refers to 2021/22 within the 2019/20 budget, this is at a high-level and we cannot conclude on any period after 2019/20, as NHS HS has not quantified any expected funding gap beyond that.

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 NHS HS has achieved a break-even position in 2018/19 and is forecasting to do so for 2019/20, it does not have detailed financial planning in place following 2019/20. Given this, it is not possible to conclude that NHS HS is in a financially sustainable position.

NHS HS medium-term financial planning should be linked to its five-year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government’s five-year Medium Term Financial Strategy (‘MTFS’).

In 2017/18, NHS HS did not prepare any medium-term financial plans given the focus on transition and the expectation that Public Health Scotland would be established from the beginning of 2019/20. This same assumption underpins the decision not to prepare medium-term plans in 2018/19.

NHS HS has a five year strategy for the 2017-22 period, and carries out detailed planning on a year by year basis. Due to the transition to Public Health Scotland which is now expected to be operating from 1 April 2020, being deferred a year from its original vesting date of 1 April 2019, NHS HS and NSS-PHI have already reached preliminary agreement on joint planning for 2020/21.

Adopting this approach, and taking cognisance of the considerable work involved in setting-up the new public health body the management and the Board are confident there is appropriate planning to deliver services and achieve their objectives, accepting that NHS HS may cease to exist before the completion of the 2017-22 strategy but that the progress made in this strategy will help guide the new public health body in its development. This approach comes with a risk if the transition is further delayed. Until NHS HS ceases to operate, management and the Board need to continue to ensure that it has all appropriate plans in place to deliver its services and achieve its objectives. It is better to have these plans in place and not need them than to not have them at all.

There is no indication in NHS HS’ Annual Operating Plan that the Scottish Government’s MTFS has been considered. It is not clear how the assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the MTFS.

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

Focus on outcomes

NHS HS 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.

NHS HS’ five-year strategy is clearly aligned with the National Outcomes on Health and Wellbeing, with this supported by the annual Delivery Plan. The outcomes and objectives set out in the Delivery Plan include a clear link against each to one of the ‘strategic priorities’ of the Board, ensuring that the focus in each year is aligned with the five-year strategy.

While NHS HS has a Corporate Planning Tool which enables it to cost projects and outcomes linked to each strategic priority, it needs to take this one step further and make a clear link between the use of resources and outcomes achieved in its performance and financial planning documents. At present, it is not clear to users and the Board what amount of resources are expected to be utilised in delivering each strategic priority or National Outcome. Including the anticipated resource use in the Delivery 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.
Financial sustainability (continued)

Workforce planning

While we are aware that there has been considerable work carried out identifying workforce needs in 2018/19 and 2019/20, with a detailed staff budget produced, there is room for improvement in longer-term workforce planning. NHS HS needs to have detailed workforce planning in place, including detailed analysis on leavers and joiners in the year, actions for the coming year linked to identified workforce needs, and links to workforce development aligned with defined roles and responsibilities.

In line with good practice, the plan should consider workforce behaviours, covering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and productivity changes. The plan should project the medium-to-longer term workforce against estimated changes in demand and remit and costing the changes in workforce required.

The intended transition to Public Health Scotland does not preclude the need for such planning: it is presumed that for at least the short-term start up phase of the new body, it will be guided by the existing plans of the predecessor bodies.

Transition to Public Health Scotland

The anticipated date for transition to Public Health Scotland has moved from April 2019, to December 2019, and now to April 2020. There is a risk that the timeline could slip further.

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

Deloitte View – Financial sustainability

As discussed on page 20, NHS HS achieved financial balance in 2018/19 and intends to manage staff turnover and use carried forward surplus to deliver a balanced budget for 2019/20. NHS HS have not carried out any detailed planning for the period beyond 2019/20, on the assumption that the transition to Public Health Scotland will be complete. Given this, we cannot conclude on the financial sustainability of the organisation.

This same assumption underpinned the same decision in 2018/19. Until NHS HS ceases to exist, management and the Board need to ensure that they are planning appropriately to deliver NHS HS services and achieve its objectives into the medium-term. The planning carried out by NHS HS will likely impact on the early direction of the new public health body and can therefore serve as a means to achieve the objectives set out in NHS HS’ strategy.

The assumptions in NHS HS’ financial plan are not consistent with the Scottish Government’s MTFS. There is further 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.

NHS HS has only high-level workforce planning arrangements in place. Amendments in line with recently issued good practice 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.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Areas considered</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Withdrawal</td>
<td>We have assessed what work that NHS HS has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.</td>
<td>NHS HS is heavily reliant on national planning and procedures to prepare for EU Withdrawal and to minimise its impact on the organisation. There has been reporting to the Board on what actions NHS HS are taking locally and what actions are being progressed nationally. NHS HS note that, locally, EU Withdrawal is considered to be a low risk area with the primary impact being on a small number of staff. While NHS HS is prepared in many areas for EU withdrawal by virtue of being involved in national processes, there are a number of areas - workforce planning, longer-term financial planning and contingency planning for a 'no deal' withdrawal - which require improvement at a local level.</td>
</tr>
<tr>
<td>Changing landscape for public financial management</td>
<td>As part of our audit work on financial sustainability (see pages 19 – 21) we have considered how NHS HS has reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long term planning.</td>
<td>NHS Health Scotland recently published its Annual Operating Plan. There is no indication in the plan that the Scottish Government's MTFS has been considered. It is not clear how the assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the MTFS. There is further room for improvement in outlining how the anticipated spend over the short-to-medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.</td>
</tr>
<tr>
<td>Dependency on key suppliers</td>
<td>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.</td>
<td>No specific risks around dependency on key suppliers have been identified. While NHS HS has a number of key suppliers - such as NHS National Services Scotland - these are public bodies providing services to NHS HS and their functions would be assumed by another public body if they ceased to exist.</td>
</tr>
<tr>
<td>Openness and transparency</td>
<td>We have considered NHS HS’ approach to openness and transparency through our wider scope work (see page 23).</td>
<td>NHS HS has a good attitude to openness and transparency. 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. NHS HS 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 NHS HS is always striving for more.</td>
</tr>
</tbody>
</table>
Other specific risks (continued)

Openness and transparency

Openness and transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation works. 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 satisfy the good governance test.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation works. 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 satisfy 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 NHS HS’ 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, NHS HS has a good attitude to openness and transparency and there is a supportive culture that underpins this.

There is no evidence of improvements made in relation to openness and transparency in the year. There does not appear to be a regular review of NHS HS’ position on openness and transparency, nor any benchmarking of their approach with others in the NHS or other public bodies. We note that openness and transparency were not explicitly considered through the Board’s self-assessment process.

While we acknowledge and welcome the ‘Stakeholder Engagement Plan’ approved by the Board, NHS HS should consider wider issues surrounding openness and transparency at Board level in the coming year, 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 NHS HS 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.
Other requirements

Fraud considerations

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

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

**National Fraud Initiative (NFI)**

In accordance with Audit Scotland planning guidance, we are required to monitor NHS HS’ 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 NHS HS was fully engaged in the exercise. However, a number of areas for improvement have been identified, including:

- The Audit Committee should receive reporting on the NFI self-appraisal checklist;
- NHS HS should consider using the NFI real time matching facilities in order to enhance assurances over their internal controls and improve their approach to risk management;
- Senior management and the Board should receive reporting on the progress and outcomes of the NFI exercise; and
- NHS HS should consider involving Internal Audit in the NFI exercise to monitor the organisation’s approach to completing the NFI exercise and provide feedback to rectify any weaknesses identified.

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.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total matches flagged</td>
<td>151</td>
</tr>
<tr>
<td>Total matches flagged as high risk</td>
<td>4</td>
</tr>
<tr>
<td>Total processed to date</td>
<td>99</td>
</tr>
<tr>
<td>Frauds</td>
<td>0</td>
</tr>
<tr>
<td>Errors</td>
<td>0</td>
</tr>
<tr>
<td>Savings</td>
<td>0</td>
</tr>
</tbody>
</table>

**Deloitte view**

NHS HS has appropriate arrangements in place for the prevention and detection of fraud and other irregularities, and is fully engaged in the NFI exercise. A number of recommendations for improvement in the NFI exercise should be considered by management.
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.

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 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
30 May 2019
Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements
No 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 misstatements
Auditing standards require us to highlight significant disclosure misstatements to enable the Audit 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 and FReM requirements, 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**

<table>
<thead>
<tr>
<th>Area</th>
<th>Recommendation</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td>NHS HS only has short-term financial planning in place, covering the coming year. It does not have a detailed longer-term financial plan and should begin the process of preparing this, in line with good practice. This should be linked to NHS HS’ five year strategy (and the associated strategic priorities and National Outcomes) and the Scottish Government’s five-year MTFS. NHS HS needs to ensure that it’s financial planning is consistent with the Scottish Government MTFS and outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes. (See page 20 for more information.)</td>
<td>High</td>
</tr>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td>NHS HS needs to make a clear link between the use of resources and outcomes achieved. This means including the anticipated resource use in the operational plan - which is then itself linked to the strategic priorities - to enable the Board to monitor which strategic priorities are receiving the most resources and improve scrutiny of performance against each priority. (See page 21 for more information.)</td>
<td>High</td>
</tr>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td>NHS HS needs to make improvements in line with recently issued guidance to its workforce planning arrangements. The plan should project the medium-to-longer term workforce against estimated changes in demand and remit, costing the changes in workforce required. The workforce plan should include detailed analysis on staff turnover, identified workforce needs and associated actions and links to workforce development. The plan should also consider workforce behaviours, recruitment, promotion, turnover, absenteeism and productivity. (See page 21 for more information.)</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td>NHS HS 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. The outcomes and objectives set out in the delivery plan would be improved by including a clear link against each to one of the National Outcomes or ‘strategic priorities’ of the organisation, ensuring that the focus in each year is aligned with the five-year strategy. (See page 21 for more information.)</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Openness &amp; Transparency</strong></td>
<td>NHS HS should consider its approach to openness and transparency at a Board level, reaching a position on how to be increasingly open and transparent through a process of consultation and developing an associated action plan. (See page 23 for more information.)</td>
<td>Medium</td>
</tr>
</tbody>
</table>

*Note: With the impending dissolution of Health Scotland the above points would not be taken forward within Health Scotland but carried forward to the new public health body.*
### 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 3 of the total 3 recommendations made have been fully implemented, as outlined below. We will continue to monitor these as part of our audit work in 2019/20.

<table>
<thead>
<tr>
<th>Area</th>
<th>Recommendation</th>
<th>Management Response</th>
<th>Responsible person</th>
<th>Target Date</th>
<th>Priority</th>
<th>2018/19 Update</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Journal Authorisation</strong></td>
<td>The quarterly review of all the transactions in the system (including journals) should include a cover sheet showing that it was prepared/reviewed by the Reporting Accountant and signed off as reviewed/approved by the Head of Finance.</td>
<td>Management have agreed to implement the recommendation.</td>
<td>Head of Finance &amp; Procurement</td>
<td>May 2019</td>
<td>Medium</td>
<td>Fully implemented. Through our work on assessing the design and implementation of controls over journal authorisation, we have confirmed that this recommendation has been fully implemented in the year.</td>
</tr>
<tr>
<td><strong>Classification of liabilities</strong></td>
<td>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.</td>
<td>Management have noted the insight and will consider it for implementation going forward. However, no changes have been made for the current year accounts.</td>
<td>Head of Finance &amp; Procurement</td>
<td>March 2019</td>
<td>Medium</td>
<td>Fully implemented. In 2018/19, management clearly differentiated between trade payables and accruals in their working papers and the financial statements.</td>
</tr>
<tr>
<td><strong>Remuneration Report</strong></td>
<td>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.</td>
<td>Management have agreed to implement the recommendation.</td>
<td>Head of Finance &amp; Procurement</td>
<td>March 2019</td>
<td>Low</td>
<td>Fully implemented. In 2018/19, a detailed review of the remuneration report was carried out by the Head of Finance. Only minor issues were identified in the year and these were due to inconsistencies between the FReM and Accounts Manual, rather than management error.</td>
</tr>
</tbody>
</table>
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 NHS HS 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 NHS HS 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 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:

<table>
<thead>
<tr>
<th>Independence confirmation</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £37,379 as broken down below:</td>
</tr>
<tr>
<td></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Auditor remuneration</td>
<td>31,629</td>
</tr>
<tr>
<td>Audit Scotland fixed charges:</td>
<td></td>
</tr>
<tr>
<td>Pooled costs</td>
<td>3,800</td>
</tr>
<tr>
<td>Audit support costs</td>
<td>1,950</td>
</tr>
<tr>
<td><strong>Total fee</strong></td>
<td><strong>37,379</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Non-audit services</th>
<th>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.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Relationships</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>We are not aware of any relationships which are required to be disclosed.</td>
</tr>
</tbody>
</table>