

## Healthcare Improvement Scotland

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

Issued on 18 June 2021 for the meeting on 23 June 2021

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# Introduction

## The key messages in this report

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

- A robust challenge of the key judgements taken in the preparation of the Annual Report and Accounts.
- 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 ('the Committee') of Healthcare Improvement Scotland ('HIS') for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Report and Accounts**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. 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 updates made by management (see page 18 for further details) the Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of the Board.

Following updates made by management (see page 18 for further details) the auditable parts of the Remuneration and Staff Report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on pages 10 to 14. To date, there have been one misstatement identified in excess of our reporting threshold of £29k. We have identified disclosure deficiencies as detailed on page 36.

### **Conclusions on audit dimensions**

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

**Financial sustainability** - A balanced budget has been set for 2021/22. Based on this and HIS' history of achieving a breakeven position, we are satisfied that short-term financial balance can be achieved in 2021/22. The MTFP has not been updated in the year. HIS should ensure that the MTFP is updated on an annual basis in order to accurately reflect the financial position of HIS. This is particularly important in light of the current economic climate and the unknowns posed by both the COVID-19 pandemic and EU withdrawal.

Our detailed findings and conclusions are included on pages 21 to 25 of this report.

# Introduction (continued)

## The key messages in this report (continued)

### **Emerging issues.**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided a summary of those most relevant to HIS as an Appendix on pages 28 to 33 of this report.

### **Next steps.**

An agreed Action Plan is included in the Appendix on page 37 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 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 the report. In addition, we have included our "sector developments" on pages 28 to 33. We have also shared invites to relevant Deloitte led webinars with HIS and provided comments on draft documents.

# Annual Report and Accounts audit



# Quality indicators

## Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements		The documentation of the dilapidation judgements made and sufficient evidence supporting those judgements in arriving at the provision was unavailable until a late stage in the audit due to unforeseeable circumstances arising during the audit. The documentation and evidence collated had improved compared with the prior year.
Adherence to deliverables timetable		The audit of the Annual Report and Accounts progressed largely in line with the original timescale. The receipt of the Annual Report and Accounts and notes to the Annual Report and Accounts were provided on 12 May 2021, two days after the agreed timeline, however this was due to unforeseeable circumstances. Planning for the audit has improved from previous years.
Access to finance team and other key personnel		Deloitte and HIS have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. However, we encountered some issues with the documentation and evidence provided for prepayments, headcount and on our focused cut-off testing of invoices received and paid around the year end. This is discussed further on page 36.
Quality of draft Annual Report and Accounts		A full draft of the Annual Report and Accounts was received for audit on the 12 May 2021. We noted improvements in line with good practice in relation to the inclusion of case studies, infographics and sign posting. Whilst generally compliant with the reporting requirements, a number of amendments were required. These are discussed further on page 18.



Lagging



Developing



Mature

## Quality indicators (continued)

### Impact on the execution of our audit (continued)

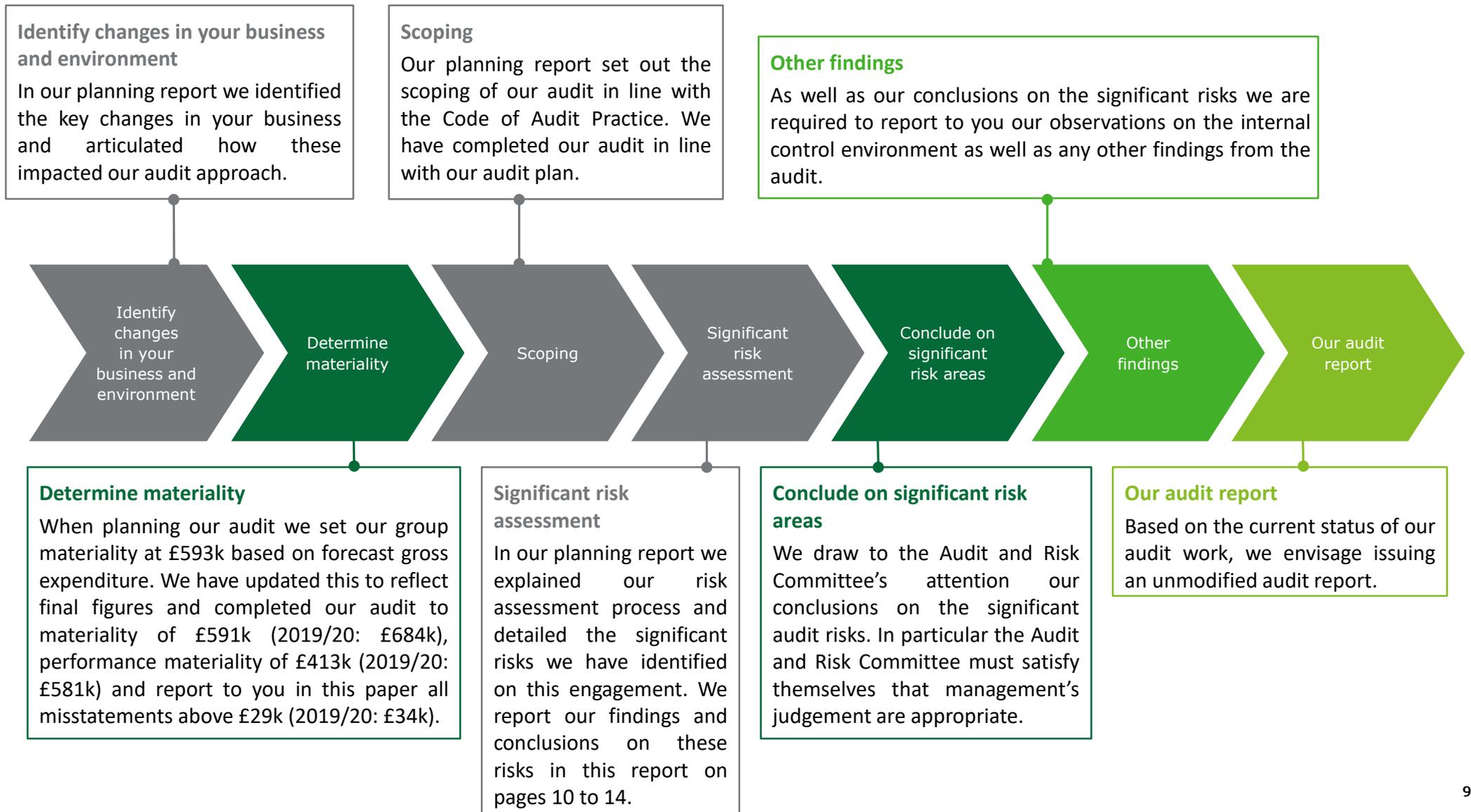
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Area	Grading	Reason
Response to control deficiencies identified		Control deficiencies have been disclosed and management have investigated appropriately. These are discussed further on page 15.
Volume and magnitude of identified errors		We have not identified any significant financial adjustments to date. To date, we have identified two disclosure deficiencies which could have been prevented by a more detailed management review.

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# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

# Significant risks (continued)

## Operating within the expenditure resource limits

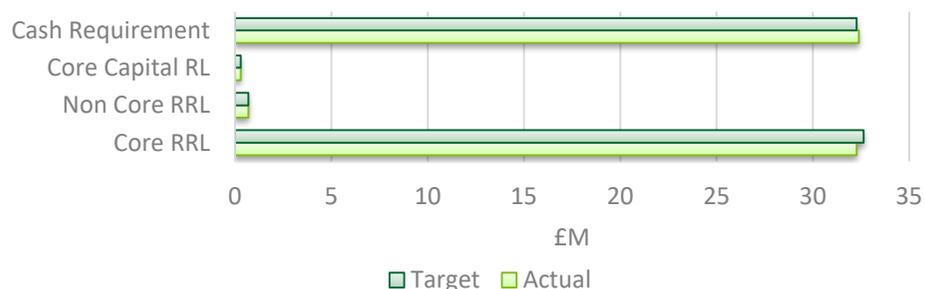


### Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we have not considered this to be a significant risk for HIS as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that 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.

The significant risk was therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



### Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government (which are illustrated in the graph below). Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to 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.

Based on our testing to date, we confirm that the Board has performed within the limits set by Scottish Government Health and Social Care Directorate and therefore is in compliance with the financial targets in the year. Excluding the provision of financial flexibility provided by the Scottish Government, HIS' outturn would have been an underspend on RRL of £0.156m.

# Significant risks (continued)

## Management override of controls



### **Risk identified.**

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

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



### **Deloitte response and challenge**

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

#### **Journals**

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

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

### **Accounting estimates and judgements.**

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

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

### **Significant and unusual transactions**

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

#### **Deloitte view**

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

We have not found any indication of management bias in the judgements and estimates reviewed as part of the audit.

# Significant risks (continued)

## Management override of controls (continued)

**Key estimates and judgements** The key estimates and judgements in the Annual Report and Accounts includes those which we have selected to be significant audit risks around expenditure recognition (see page 11). These are inherently the areas in which management has the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on these risks, we have reviewed and challenged management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
<p>Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision</p>	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold of £25,000 per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. The Board provide 100% for Category three claims and 50% for all Category two claims notified by the NHS Central Legal Office ('CLO'), according to the value of the claim. As at 31 March 2020, there were no claims specific to HIS included in the provision.</p> <p>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.</p>	<p>The provision is valued by the CLO based on the information on claims and historical experience. The value of claims is notified to HIS by the CLO. We have obtained independent confirmation directly from the CLO that there are no specific claims against HIS outstanding at 31 March 2021.</p> <p>We await assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO.</p>
<p>Accruals</p>	<p>Accruals relating to HIS operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.</p>	<p>We have assessed this estimate through the performance of detailed testing, sample testing accruals as a significant risk, with further sample testing on potential unrecorded liabilities performed at a significant risk level to assess the completeness of the amount recorded. Based on the procedures performed, we are satisfied that the amount recorded is reasonable.</p> <p>We performed detailed testing at significant risk level on a sample basis of the holiday pay accrual. This had changed significantly year on year due to the impact of the response to COVID-19 increased holiday balances. Based on the procedures performed, we are satisfied that the amount recorded is reasonable.</p>

## Significant risks (continued)

### Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
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 £463k has been made in respect of a leased property in Glasgow.	<p>This provision is material and relates to HIS offices in Glasgow (Delta House). A new lease was entered into during 2020/21 which required that the building is restored to the condition at the commencement of the lease. The provision has decreased by £835k compared with 2019/20 due to the landlord agreeing to complete works in relation to mechanical and electrical items as part of negotiations.</p> <p>We have reviewed the 2020/21 provision, including management's judgements and valuation the outcome of this was that an adjustment of £95k was required. Management's initial estimate did not take into account that only unavoidable costs should be provided for and the latest update from the landlords testing of equipment. Our testing of the provision is not yet complete and a verbal update will be provided to the Committee.</p>

# Other significant findings

## Internal control

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

Area	Observation	Priority
<b>Management Review</b>	Throughout the audit, disclosure deficiencies were identified in relation to both the payment policy information and the Remuneration and Staff Report disclosures (specifically headcount, staff turnover and staff survey information). These could have been prevented through a more in-depth management review, where by errors of this nature could have been identified prior to the audit, reducing the requirements for corrections to be made and increasing the efficiency of the audit for both HIS and Deloitte. This is a recurring finding whereby the similar issues were identified in the prior year audit. Our recommendation is detailed in the prior year action plan follow-up on page 37.	

The purpose of the audit was for us to express an opinion on the Annual Report and Accounts. The audit included consideration of internal control relevant to the preparation of the Annual Report and Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other significant findings

## Financial reporting findings

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

### Qualitative aspects of your accounting practices:

HIS' Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual ('the FReM'). Following our audit work and the updates made to the annual report and accounts highlighted on page 18, we are satisfied that the accounting policies are appropriate.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the assessment of significant judgements and estimates. These significant matters related to the identification and appropriate disclosure of areas of estimation uncertainty, examples of which are discussed on pages 13 and 14.

### Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from HIS on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# Our audit report

## Other matters relating to the form and content of our report

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



### **Our opinion on the Annual Report and Accounts**

Our opinion on the Annual Report and Accounts is expected to be unmodified.



### **Material uncertainty related to going concern**

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

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



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the Annual Report and Accounts 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 Annual Report and Accounts 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 Annual Report and Accounts 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 18.

# Your annual report

We are required to provide an opinion on the auditable parts of the Remuneration and Staff Report, the annual Governance Statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Performance Report	The report outlines HIS' performance, both financial and non-financial. It also sets out the key risks and uncertainty facing the organisation.	<p>We identified that improvements were needed in setting out HIS' KPIs, commentary on Brexit and Climate Change, and aligning the structure of the Performance Report with the requirements of the FReM.</p> <p>We have also read the Performance Report and following changes made as a result of our audit, are satisfied that the information is materially correct and consistent with our knowledge acquired during the course of the audit, and is not otherwise misleading.</p> <p>We have provided management with comments and suggested changes particularly in relation to compliance with the overview and await an updated version reflecting these changes.</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 Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provide management with comments and suggested changes and have received an updated version reflecting these changes.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction. An inconsistency was identified in relation to staff numbers as detailed on page 35 which has been corrected by management.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>The going concern disclosure and auditing requirements for NHS bodies changed for 2020/21. In accordance with FReM, HIS has prepared its accounts on a going concern basis, applying the 'continuing provision of services' approach. Under this approach, the FReM indicates that the going concern assessment is not subject to material uncertainties, and no additional disclosures need to be considered. We have reviewed management assessment of the going concern basis.</p> <p>Under the 2020 revisions to Practice Note 10 "Audit of Financial Statements of Public Sector Bodies in the United Kingdom", our work has therefore focused upon confirming the use of the "continued provision of service" approach is appropriate. We have no matters to report in respect of this.</p> <p>HIS' arrangements to secure financial sustainability are considered as part of our audit dimensions work on pages 21 – 25.</p>

# Audit dimensions



# Audit dimensions

## Overview

As set out in our Audit Plan, 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. In line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

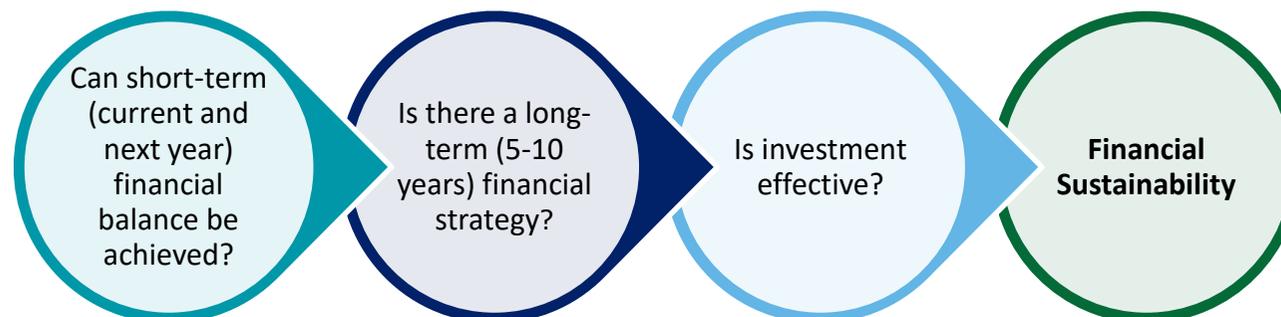
- The appropriateness of the disclosures in the **Governance Statement** (which is discussed on page 18); and.
- The **financial sustainability** of HIS and the services that it delivers over the medium to longer-term.

In addition to the above, we have reviewed the Board’s arrangements for the **prevention and detection of fraud and irregularities**. Overall we found HIS’ arrangements to be operating effectively.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

### Financial sustainability

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



# Financial sustainability

## Areas considered.

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

*“There is a risk that robust long-term planning arrangements are not in place to ensure that the body can manage its finances sustainably and delivery services effectively, identify issues and challenges early and act on them promptly.”*

## Budget setting.

**2019/20 conclusion:** The proportion of savings achieved against budget remained similar, although the level of recurring savings achieved declined significantly. We recognised the improvement in the budget set for 2020/21 in identifying savings where possible and were satisfied that HIS could achieve short-term financial balance in 2020/21. However, the impact of COVID-19 remained a significant risk which could impact on HIS achieving short-term financial balance.

**2020/21 update:** The 2021/22 budget presented to the Board on 24 March 2021 set a balanced budget of £29.1m (2020/21: £34.493m). The budget incorporates a £1.5m (2020/21: £1.5m achieved £3.1m) savings target to ensure short-term financial balance is achieved, comprising recurring savings of £0.7m in relation to staff turnover and £0.8m of non-recurring savings.

Included within the budget is an additional allocation of £1.1m, which has been included on the assumption that this will be received from the Scottish Government. There is a risk that this additional allocation might not be received by HIS, which would require additional savings to be made to achieve a breakeven position.

The Board and its Committees had engagement with the budget setting process from December 2020 – March 2021 through both formal meetings and seminars. It is good practice to gain Board member involvement at the input stage rather than the output stage to ensure Board members have the opportunity to shape the use of resources within the organisation.

COVID-19 has impacted the decisions made in relation to Independent Healthcare income, as well as the level of expenditure incurred particularly in relation to conferences and events.

**2020/21 conclusion:** A balanced budget has been set for 2021/22. Based on this and HIS’ history of achieving a breakeven position, we are satisfied that short-term financial balance can be achieved in 2021/22.

Savings targets have been incorporated within the budget, demonstrating HIS’ understanding of the importance for savings to be made in the year. However, given there are currently no specific savings plans in place for non-recurring savings, it is not clear what actions HIS will take to deliver savings across its services in 2021/22.

Through the short-life working group which has been established, Healthcare Improvement Scotland are actively assessing and engaging with the Scottish Government on the risk and uncertainties of IHC and the wider sector in which it operates.

# Financial sustainability (continued)

## Medium to long-term financial planning.

**2019/20 conclusion:** There had been a minor improvement in the medium-term position of HIS, as the forecast cost gap had dropped from 7.6% by 2021/22 to 6.6% by 2022/23. However, we highlighted the need for longer-term financial planning, including the anticipated savings from transformational change. Given the risks associated with COVID-19, those needed to be taken into account in updated medium-term plans.

The funds allocated to the improvement board in 2019/20 were not utilised to deliver change projects. In 2020/21 additional funds were allocated and given the importance of transformational change to the financial sustainability of HIS, it needed to ensure this funding was utilised effectively to drive change and improvement.

**2020/21 update:** HIS has achieved a breakeven position in 2020/21 and based on the draft financial plan for 2021/22 is projecting to do so again. This is an improvement on the medium-term position at the prior year end.

The medium-term financial plan ('MTFP') has not been fully updated in 2020/21 as the Scottish Government only required a single year financial plan due to the impact of COVID-19. Reporting was presented to the Audit and Risk Committee in relation to a five year financial forecast and the longer-term financial planning approach. This projected a breakeven position over the five year period although some of the assumptions require review as they are out of line with what has transpired or is expected to transpire in the future. The Committee approved this approach and recommended it to the Board.

We encourage HIS to use the agreed approach to update their MTFP on an annual basis ensuring that assumptions and projections remain relevant and are aligned to the current economic environment. This is particularly important given that the most recent MTFP approved by the Board did not incorporate the impact of COVID-19 or the EU withdrawal.

Progress has been made with the set up of the improvement board although this has been limited due to the impact of the COVID-19 pandemic diverting resources. The main review undertaken has been in relation to the digital infrastructure in place.

We have reviewed the Board's latest COVID-19 Remobilisation Plan which was presented to the Board on 24 March 2021. This has been developed with the aim of remobilising, recovering and redesigning the services provided by the Board in the post COVID-19 environment. COVID-19 costs are expected to be funded on a non-recurrent basis by the Scottish Government based upon mobilisation and remobilisation submissions for the actual costs incurred.

**2020/21 conclusion:** The MTFP has not been fully updated in the year, although we recognise the progress made to a longer-term financial planning approach. HIS should update the MTFP on an annual basis, ensuring that improvements are made to:

- The underlying assumptions;
- Specific savings plans to address funding gaps identified;
- Investment in and savings from transformation activities; and
- The impact of COVID-19.

We cannot currently conclude on the medium to long-term financial sustainability of HIS given the lack of medium-term financial planning in place.

## Remobilisation Planning

**2019/20 conclusion:** Not specifically reported on within our 2019/20 report.

**2020/21 update:** HIS has a COVID-19 Remobilisation Plan which was presented to the Board on 24 March 2021. This plan was introduced to aid HIS in reshaping services in the recovery phase from COVID-19 and is focussed on seven key areas as detailed on page 23.

# Financial sustainability (continued)

## Remobilisation Planning (continued)



The report outlines the actions HIS are required to take to deliver on the key areas identified, through detailed work programmes, which link directly to supporting national priorities.

The COVID-19 pandemic and the requirement for home working evidenced the importance of ensuring appropriate IT infrastructure was in place. In response to this, HIS utilised the services of National Services Scotland – Digital and Security to perform a comprehensive review of the current digital environment to identify current themes and risks.

This review identified several areas for improvement, including modernisation of the CRM system and using technology to be an “intelligence led” organisation. HIS is currently working on implementing the recommended actions detailed within the report.

In addition, HIS have an Internal Oversight Board has been established to deliver a plan focuses on internal improvement work to support and enable to delivery of each of the areas identified above. Within the remobilisation plan.

**2020/21 conclusion:** HIS has made some progress with improvement activity in the year, despite the impact of the COVID-19 pandemic and the Board’s response becoming an operational priority.

In recognition of the significant impact of COVID-19 on Board services, it is positive to note that a comprehensive report has been considered by the Board in March 2021. We are pleased to note HIS’ recognition of the requirement for change and we welcome planned changes to the current provision of services and IT infrastructure currently in place.

HIS should detail specific timelines for implementing the required actions identified throughout the remobilisation plan and digital review, and ensure that there is regular reporting to the Board on progress made against transformational change in the year. A comprehensive benefits tracker therefore should be considered to capture all the data required to demonstrate whether the intended outcomes of each project have been achieved, including but not limited to the financial savings.

# Financial sustainability (continued)

## Workforce Planning.

**2019/20 conclusion:** We were pleased to note that HIS continued to improve its approach to workforce planning. We will assess whether the 2020/21 review addresses our recommendations on improving medium to longer-term planning.

**2020/21 update:** The Board approved an Interim Workforce Plan for 2021/22 which sets out the key areas of priority required to meet the Board's workforce needs in aligning operational service developments and financial planning processes. The plan acknowledges the significant impact of COVID-19 on HIS' work, identifying the need to prioritise people, systems, processes and resources to ensure a more integrated health and social care system is achieved.

An action plan for 2021/22 is detailed within the Integrated Workforce Plan, however to ensure effective and appropriate monitoring of progress of implementation, the plan requires to be further developed to include key performance indicators and outcomes expected to be achieved against them.

The move to home working was managed effectively, with minimal service disruption. Staff turnover in the year was 9.1% and the sickness absence rate was 1.8%, both lower than figures recorded in the prior year, which were 12.8% and 3.0%, respectively. This is consistent with other national board's and is due to the impact of COVID-19 restrictions.

HIS carried out a staff survey in the early stages of the pandemic to gain an understanding of the overarching views of employees on the new remote working environment. The feedback gathered was used by HIS to ensure that employees with caring (and other personal) responsibilities were appropriately supported through flexible working arrangements and that there were consistent messages delivered to all staff, with a key focus on wellbeing.

**2020/21 conclusion:** HIS have developed an Interim Workforce Plan for 2021/22 with a key focus on aligning operational service developments and financial planning processes, while also recognising the skills and capacity of the workforce which will be required to deliver planned services in the future which is a good start. A medium term workforce plan is required aligned to financial planning and remobilisation planning. This should include the current workforce, future workforce and how HIS is going to achieve this.

HIS have monitored staff feedback during the year, which has been used to ensure support has been provided throughout the pandemic to those in need.

## Financial sustainability (continued)

### Deloitte view – Financial sustainability

A balanced budget has been set for 2021/22. Based on this and HIS' history of achieving a breakeven position, we are satisfied that short-term financial balance can be achieved in 2021/22. Through the short-life working group which has been established, Healthcare Improvement Scotland are actively assessing and engaging with the Scottish Government on the risk and uncertainties of IHC and the wider sector in which it operates.

The MTFP has not been updated in the year. HIS should ensure that the MTFP is updated on an annual basis in order to accurately reflect the financial position of HIS. This is particularly important in light of the current economic climate and the unknowns posed by both the COVID-19 pandemic and EU withdrawal.

HIS has made some progress with improvement activity in the year, despite the impact of the COVID-19 pandemic and the Board's response becoming an operational priority.

HIS have developed an Interim Workforce Plan for 2021/22 with a key focus on aligning operational service developments and financial planning processes, while also recognising the skills and capacity of the workforce which will be required to deliver planned services in the future which is a good start. A medium-term workforce plan is required aligned to financial planning and remobilisation planning. This should include the current workforce, future workforce and how HIS is going to achieve this.

# 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 (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 18 June 2021

## Sector developments



# Digital transformation

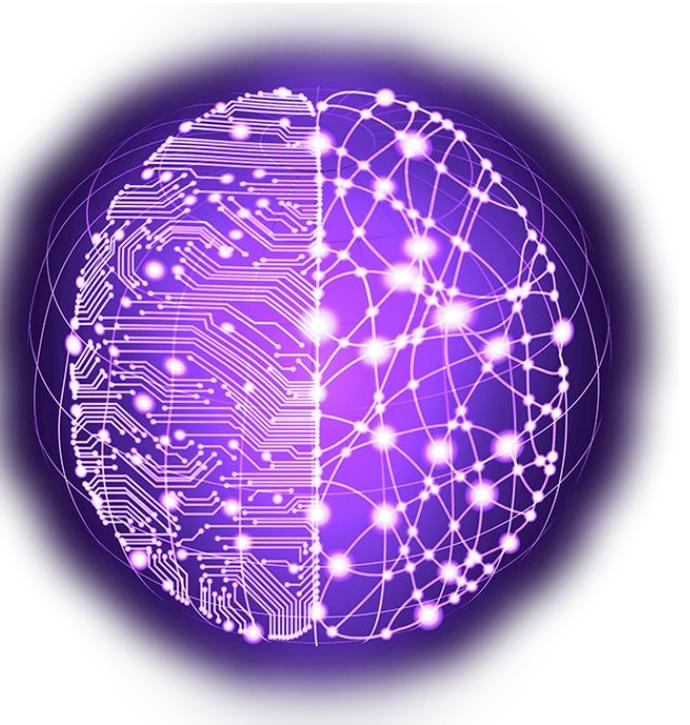
## Shaping the future of European healthcare

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### Background and overview

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

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



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### Next steps

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

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# Digital transformation (continued)

## Shaping the future of European healthcare (continued)

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### The drivers of digital transformation in healthcare

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

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

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

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

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

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

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

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# Digital transformation (continued)

## Shaping the future of European healthcare (continued)

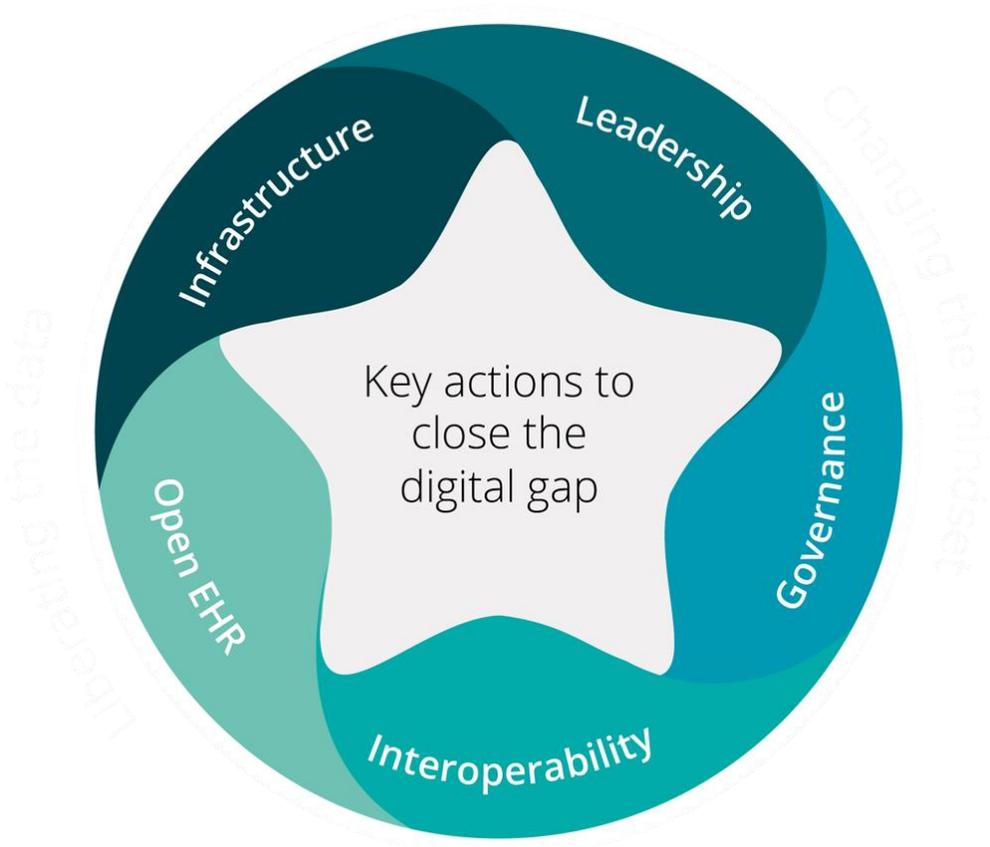
### Challenges to digital transformation

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

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

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

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



# Independent Review of Adult Social Care

## Feeley report

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### Background and overview

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

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

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

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### Next steps

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

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

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

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



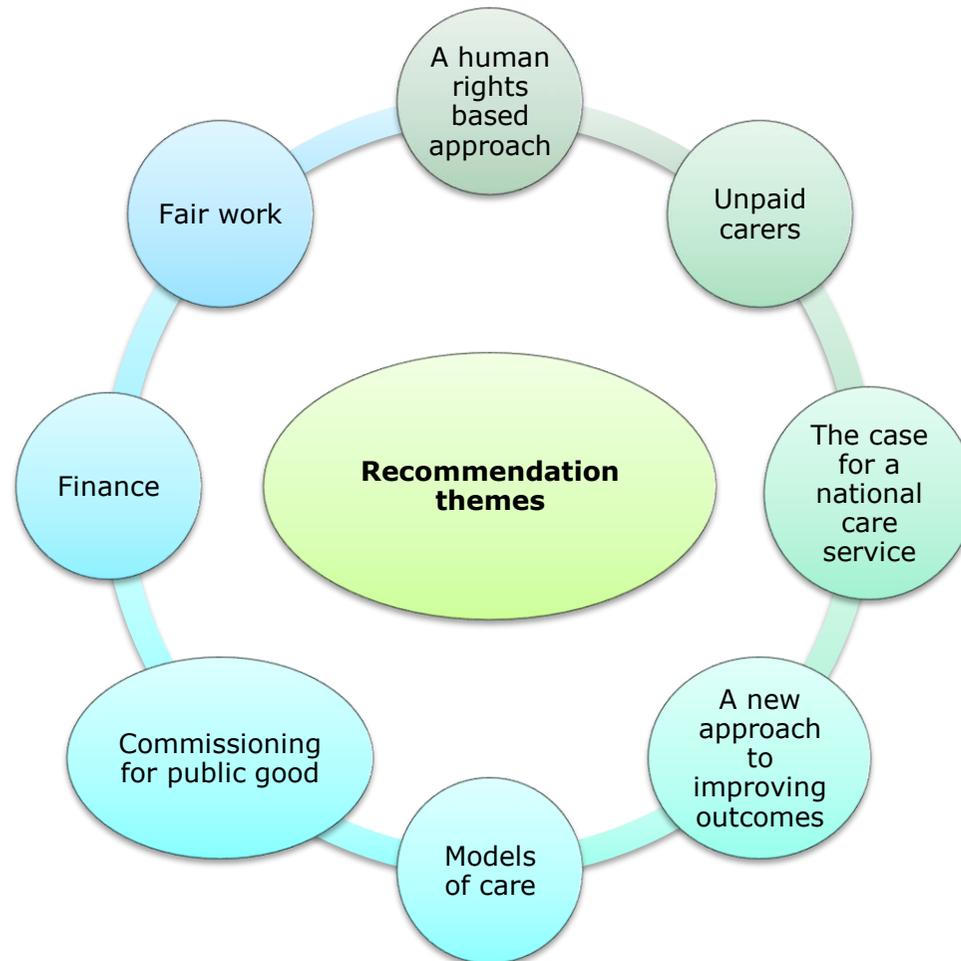
# Independent review of adult social care (continued)

## Feeley report (continued)

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The recommendations within the report cover the following key themes

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

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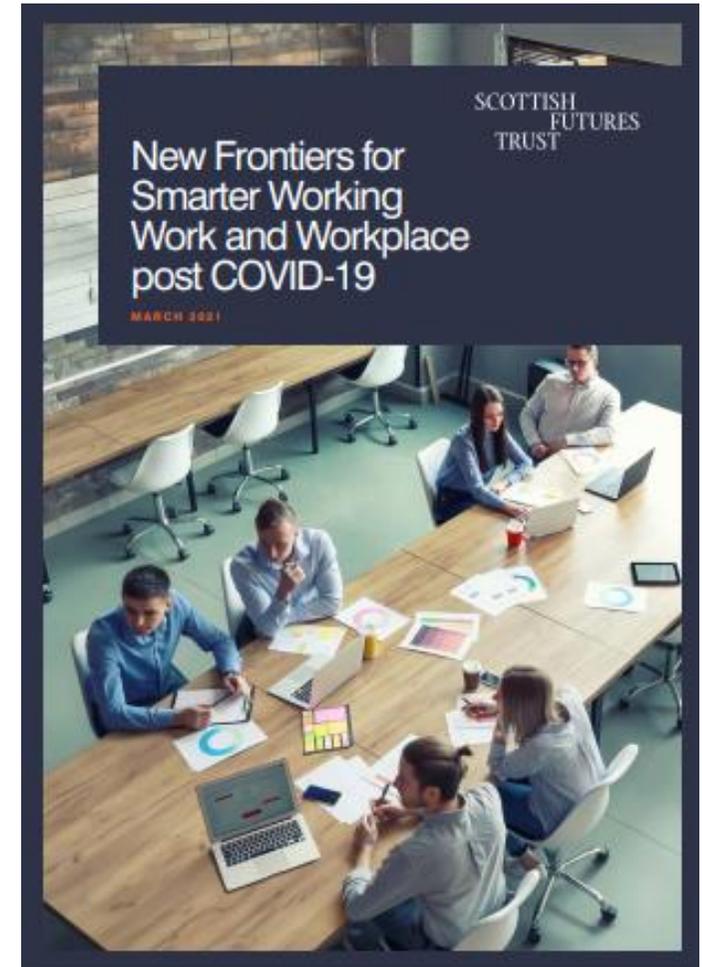
## Background and overview

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

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

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

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



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## Next steps

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

[https://www.scottishfuturestrust.org.uk/storage/uploads/new\\_frontiers\\_report\\_march2021.pdf](https://www.scottishfuturestrust.org.uk/storage/uploads/new_frontiers_report_march2021.pdf)

# Appendices



# Audit adjustments (continued)

## Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

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		Debit/ (credit) SoCNE £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year General Fund £m	Debit/ (credit) SoCTE £m
Dilapidations Provision	[1]	-	-	-	-
<b>Total</b>		-	-	-	-

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[1] As discussed on page 14, management have corrected a misstatement to increase the dilapidations provision by £95k. This arose as a result of the inclusion of costs which were avoidable and not updating for the latest position in relation to landlord completion of mechanical and electrical works. This is offset by additional AME funding from the Scottish Government.

# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Remuneration &amp; Staff Report – Headcount</i></p> <p>The headcount report provided for the audit was understated by five in the current year. Headcount has been increased from 502 to 507 in the revised Annual Report and Accounts to correct this error.</p>	<p>Headcount year on year split by gender and staff group.</p>	<p>Qualitatively material – important for users’ of the Annual Report and Accounts understanding of movement in the payroll costs.</p>
<p><i>Capital Commitment Note</i></p> <p>The contractual commitments of HIS were initially omitted from the draft accounts provided to Deloitte. Management of HIS included this within the revised Annual Report and Accounts. The commitment totaled £1.2m.</p>	<p>The Accounts Manual and IAS 16.74 state that it is a requirement to disclose contractual commitment in the notes to the Annual Report and Accounts.</p>	<p>Qualitatively material – This is an accounting standard requirement.</p>

# Action plan

## Follow-up 2019/20 action plan

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

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Financial Sustainability	HIS need to increase their focus on identifying recurring savings, through the use of available funding for transformation change to drive the change/improvement needed to bring HIS to a financially sustainable position.	The Internal Improvement Oversight Board remit is to drive efficiency. This coupled with improvements in workforce planning will deliver improvements in recurring savings. HIS operates medium-term financial planning aligned to the Scottish Government framework. This is a 3 year plan which is funded on an annual basis. Extrapolating beyond 3 years proves significantly less reliable particularly in the current climate and given that circa 25% of current funding is on an annual basis which makes planning beyond 3 years problematic.	Director of Finance & Corporate Services	31/03/2021	High	<i>Partially Implemented</i>
	These efforts will be aided through the development of a 5 year financial and workforce planning approach.	The budget for 2020/21 includes a bridging fund to enable investment in capacity for QAD, Evidence and Corporate Services and this is included in the Workforce Plan. The fund will also support digital investment to enable improved efficiency and effectiveness.				Management Update: HIS have modelled a 5 year financial projection. This has been discussed with the Audit & Risk Committee and Board. Further refinement to be undertaken in 2021-22. HIS have established a change fund in the 2021-22 budget, with a review to identifying recurring savings.
						Revised target date: 31/03/2022

## Action plan (continued)

### Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Internal Control: Management Review</i>	We would recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft Annual Report and Accounts.	Management reviews did take place. The audit started approximately 1 week earlier than the 18/19 audit, this combined with logistical difficulties relating to COVID-19 meant that management review in some areas overlapped with the audit of information. For the 20/21 audit we will look to commence this a week later and will ensure no overlap between management review and provision of data for audit. We will also work constructively with Deloitte on the timetable to identify improvements in process.	Head of Finance	31/12/2020	Medium	<p><i>Partially implemented</i></p> <p>Management update: Timetable will fully incorporate all supporting listing and a responsible individual and reviewer will be identified. This will be included in the 2021-22 timetable.</p> <p>Revised target date: 28/02/2022</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

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



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the Annual Report and Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

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



### Audit work performed:

In our planning we identified the risk of fraud in relation to operating within the expenditure resource limit and management override of controls as a key audit risk for your organisation.

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

In addition, we have reviewed management's own documented procedures regarding fraud and error in the Annual Report and Accounts

# Independence and fees

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

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## Independence confirmation

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

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## Fees

The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £26,730, as analysed below:

	£
Auditor remuneration	22,810
Audit Scotland fixed charges:	
Pooled costs	2,690
Audit support costs	1,230
<b>Total fee</b>	<b>26,730</b>

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

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

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## Non-audit services

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

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## Relationships

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

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

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