



NHS Ayrshire and Arran
Planning report to the Audit Committee
on the 2016/17 audit

8 February 2017

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Director introduction

The key messages in this report

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

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2016/17 audit. I would like to draw your attention to the key messages of this paper:

Significant financial statement risks

- NHS Ayrshire and Arran continues to face significant financial challenges. The Board approved the financial plan for 2016/17 based on efficiency savings of £25 million being made in the year. A targeted overspend of £13.2 million was approved which will require brokerage from Scottish Government and is yet to be agreed. A net overspend of £9.7 million has been reported for the period to 31 December 2016. As a result of additional funding from the Scottish Government, the projected overspend for the year to 31 March 2017 has reduced to £11 million from the original £13.2 million referred to above. The achievement of expenditure within the approved resource limit will be a significant risk for our audit, as considered further on page 11.
- Other significant risks include the valuation of property assets and management override of controls.
- Under Auditing Standards, there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in auditing standards and the nature of the revenue streams at NHS Ayrshire and Arran, we have determined that the risk of fraud arising from revenue recognition can be rebutted. This is based on the fact that there is little incentive to manipulate revenue recognition, the majority of revenue is from the Scottish Government which can be agreed to confirmations supplied and the culture and ethical frameworks of the Board mean that all forms of fraud are seen as unacceptable.

Audit Dimensions

- The 2016 Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how NHS Ayrshire and Arran is addressing these and report our conclusions in our annual report to the Audit Committee in June 2017. In particular, our work will focus on:
 - **Financial sustainability** – we will monitor the Board’s actions in respect of its short, medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if investment is effective.
 - **Financial management** – we will review the budget and monitoring reports to the Board during the year and liaise with internal audit in relation to their work on the key financial controls to assess whether financial management and budget setting is effective.

Director introduction (continued)

The key messages in this report (continued)

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

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Audit Dimensions (continued)

- **Governance and transparency** – from our review of Board papers and attendance at Audit Committees we will assess the effectiveness of governance arrangements. We will also share best practice from elsewhere from our dedicated governance team, particularly on integration as the Board’s relationship with the Integrated Joint Board’s develops.
- **Value for money** – we will gain an understanding of the Board’s self-evaluation arrangements to assess how it demonstrated value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. We will also consider the arrangements in place around its Local Delivery Plan (LDP) targets.

Other wider scope work

- We will monitor the Boards participation and progress with the National Fraud Initiative (NFI) during 2016/17 and complete an Audit Scotland audit questionnaire by 30 June 2017.
- In accordance with Audit Scotland guidance, we will be requested to provide information to support national performance audits and to inform wider analysis on the following subjects:
 - Health and Social Care Integration; and
 - follow-up of Role of Boards report.

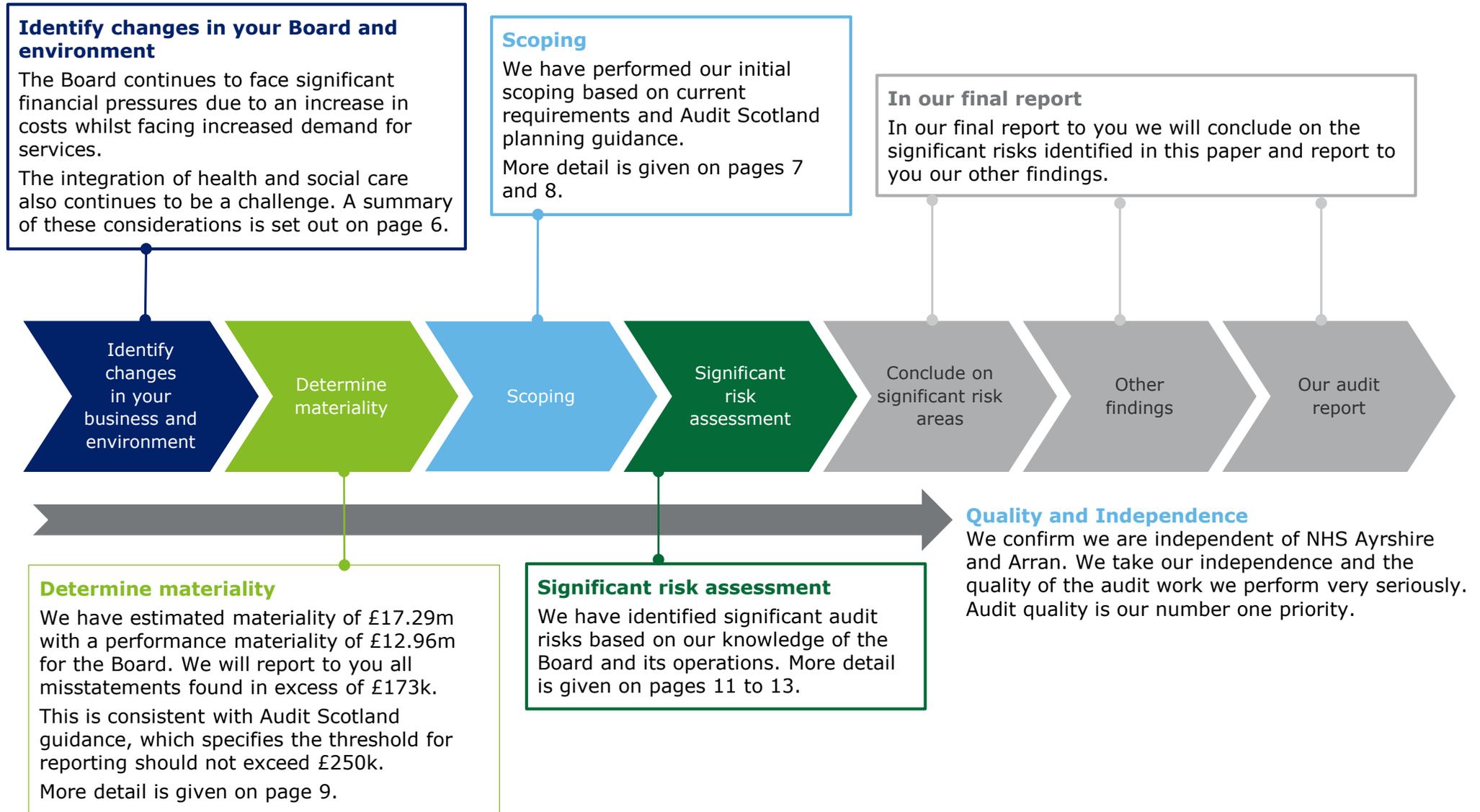
Our commitment to quality

- We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience. Further information is presented on page 17.

**Pat Kenny
Audit Director**

Our audit explained

We tailor our audit to your business and your strategy



An audit tailored to you

Focusing on your business and strategy

Impact on our audit

Performance against expenditure resource limit



There is a financial duty for NHS Ayrshire and Arran to comply with its Revenue Resource Limit (RRL), Capital Resource Limit and cash requirements. As at 31 December 2016, the Board is reporting an overspend of £9.7 million against its RRL, with a projected year-end overspend of £11 million therefore there is a risk that the targets are not met, impacting on our opinion on regularity. We will evaluate the results of our audit testing in the context of the achievement of these targets.

The Board must continue to look at how it can reduce costs to meet the challenge of making significant savings each year. There are many aspects of cost improvement that are relevant to our wider audit responsibilities. We will consider the Board's financial sustainability in the medium to longer term and consider whether it is planning effectively to continue to deliver its services on a sustainable basis.

Staffing issues



Staff costs accounted for 55% of total expenditure in 2015/16 and increased by £11 million from 2014/15 despite a pay restraint being in place for the last 5 years. The increase in costs was due to incremental drifts in pay grades and increased costs on bank and agency staff. NHS Ayrshire and Arran faces a challenge in maintaining staffing levels in medical and nursing as reliance on bank and agency staff is not sustainable and will continue to be a cost pressure if not managed.

We will consider whether the Board has developed a sustainability plan and assess the implementation and scrutiny of such a plan.

Health and Social Care Integration



2015/16 saw the first year of Health and Social Care Integration between NHS Ayrshire and Arran and the three Ayrshire constituent Councils. The results from 2016/17 will be consolidated into NHS Ayrshire and Arran's group accounts for the second year. Integration Joint Boards (IJBs) now provide services to the communities they serve in Ayrshire. The risk remains, however, that the Board and its constituent Council partners encounter problems in working together in these new arrangements. As at December 2016, while the projected outturn for East and South Health and Social Care Partnerships are close to breakeven, the North Partnership is projecting £1.9 million overspend at the year end, which will impact on the Board's ability to achieve financial balance as noted above.

We will review the current arrangements and plan in place to develop the Health and Social Care Partnership with the Councils. As part of our year-end procedures we will test the consolidation process and have regular communication with the IJB audit teams to ensure timescales are met. Additionally, as part of our commitment to sharing best practices and insights we will consult with other Deloitte member firms who have performed work around integrated health and social care economy.



Significant risk



Normal risk



Considered as part of wider scope audit requirements

Scoping

Our key areas of responsibility under the Code of Audit Practice



Core audit

Our core audit work as defined by Audit Scotland comprises:

- providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on consolidation packs);
- providing the **annual report** on the audit addressed to the Board and the Auditor General for Scotland;
- communicating **audit plans** to those charged with governance;
- providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in the NFI exercise);
- Preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- Identifying significant matters arising from the audit, alert the Auditor General for Scotland and support Audit Scotland in producing statutory reports as required; and
- undertaking work requested by Audit Scotland or local performance audit work.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking 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 management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** - using resources effectively and continually improving services.

Scoping (continued)

Our approach



Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review reports prepared by Internal audit, including their work on key financial controls, and meet with them to discuss their work. We will also discuss the work where they have identified specific material deficiencies in the control environment and we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we will work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Board's staff.



Obtain an understanding of the Board and its environment including the identification of relevant controls.	Identify risks and controls that address those risks.	Carry out "design and implementation" work on relevant controls.	If considered necessary, test the operating effectiveness of selected controls	Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.
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Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Consideration of group entities

We expect NHS Ayrshire and Arran to consolidate the three IJBs and Ayrshire and Arran Health Board Endowment Fund and produce group accounts for the year ended 31 March 2017. The three IJBs are audited separately to the Board by us and we work closely with the IJB audit teams. The Endowment Fund is not expected to be material for the purposes of the group audit.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

Audit Scotland has published good practice guides in relation the Annual Report and the Governance Statement to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Board consider during drafting.

Materiality

Approach to materiality



Basis of materiality – benchmark



- The audit director has estimated materiality as £17.29m and a performance materiality of £12.96m, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of forecast gross expenditure for the year as the benchmark for determining materiality (based on projected expenditure as of 30 September 2016).
- Materiality calculation will be revisited at year end and calculated based on actual final figures.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250,000.

Reporting to those charged with governance

Under the current materiality level based on gross expenditure, we will report to you all misstatements found in excess of £172,850.

We will report to you misstatements below this threshold if we consider them to be material by nature.

Our audit report

We will:

- Report the materiality benchmark applied in the audit of the Board;
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- Explain any normalised or adjusted benchmarks we use, if appropriate.

Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Core Expenditure Resource Limits

Key focus for management

Nature of risk

The key financial duty for NHS Ayrshire and Arran is to comply with the Revenue Resource Limit, Capital Resource Limit and cash requirements set by the Scottish Government. Given the current budget position for the Board and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of expenditure within these limits.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We will evaluate the results of our audit testing in the context of the achievement of the targets set by the Scottish Government.

Our work in this area will include the following:

- assessing whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance;
- performing focused cut-off testing;
- reviewing and challenging the assumptions made in estimating the prescribing accrual to assess completeness of recorded expenditure; and
- obtaining independent confirmation of the resource limits allocated to NHS Ayrshire and Arran by the Scottish Government.



Deloitte comment

NHS Ayrshire and Arran has reported an overspend of £9.7 million to 31 December 2016. Hospital, Community and Family Health Services is overspent by £7.3 million, Support Services excluding corporate projects, is underspent by £1.3 million and corporate reserves are showing an overspend of £3.7 million. The largest single overspend in Hospital, Community and Family Health Services was in the Acute Sector. This was £5.9 million due to nursing overspends as a result of unfunded beds being opened to meet unscheduled care demand.

The projected year-end overspend of £11 million is slightly lower than the planned £13.2 million overspend for the year as a result of additional non-recurring sources or funding. The brokerage would have to be repaid to the Scottish Government in future years and has not yet been agreed by the Scottish Government.

Valuation of property assets

The valuation of the Board's £326 million of property assets (as at 31 March 2016) is inherently judgemental

Nature of risk

The Board is required to hold NHS Estate property assets (land and building) within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

The Board held £326 million of property assets at 31 March 2016. Revaluation is calculated on an annual basis on the 31st March each financial year by the Board's appointed Valuer. In the year to 31 March 2017 100% of the portfolio will be revalued by the Valuation Office Agency (VOA).

We will perform the following:

- Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- Review the information provided to the valuer and assess whether this was complete and included all Board property assets;
- Test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- Consider assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- Involve the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the VOA.

Deloitte comment

We note that regular discussion takes place between NHS Ayrshire and Arran and the VOA during the year and a yearly meeting takes place to discuss the revaluation programme. The finance team also reviews the information provided by the VOA, comparing this to the previous year and their own knowledge of the property portfolio and checking that the information provided is arithmetically correct and if there are any irregularities.

Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

Our work will focus on:

- the testing of journals, using data analytics to focus our testing on higher risk journals;
- significant accounting estimates. In addition to the estimates discussed above in respect of property valuations, we will also consider any other provisions and accruals; and
- any unusual transactions or one-off transactions, including those with related parties.

Our wider response to the risk of fraud is set out in the Appendix of this report.

In considering the risk of management override, we will:

- assess the overall position taken in respect of key judgements and estimates;
- consider the sensitivity of the financial statements with respect to the achieving financial performance targets including Core Revenue Resource Limits (RRL) thresholds;
- consider remuneration plans and linkage with key management judgements; and
- consider our view on the overall control environment and 'tone at the top'.

Deloitte comment

We have not identified to date in our planning work any transactions which appear unusual or outside the normal course of business.

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how NHS Ayrshire and Arran in addressing these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2016/17 Audit
<p>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.</p>	<ul style="list-style-type: none">• The financial planning systems in place across the shorter and longer terms• The arrangements to address any identified funding gaps• The affordability and effectiveness of funding and investment decisions made	<p>We will monitor the Board's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.</p> <p>We will also monitor the work done in relation to staffing shortages and the development of a sustainability plan, focusing on how this relates to the longer term financial planning. Finally, we will consider the lessons learned from our wider health transformation work in the sector including our work on increasing productivity, demand management and financial turnaround.</p>
<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<ul style="list-style-type: none">• Systems of internal control• Budgetary control system• Financial capacity and skills• Arrangements for the prevention and detection of fraud	<p>As noted on page 8, we will review internal audit reports in relation to their work on the key financial controls. We will review the budget and monitoring reporting to the Board during the year to assess whether financial management and budget setting is effective.</p> <p>We will invite NHS Ayrshire and Arran to take part in the Deloitte benchmarking survey to assess the level of financial capacity and skills within the board.</p> <p>Our fraud responsibilities and representations are detailed on pages 21 and 22.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2016/17 Audit
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none">• governance arrangements• Scrutiny, challenge and transparency on decision making and financial and performance reports• Quality and timeliness of financial and performance reporting	<p>We will review the financial and performance reporting to the Board during the year as well as minutes of all Board meetings to assess the effectiveness of the governance arrangements. Our attending at Audit Committees will also inform our work in this area.</p> <p>We will also review governance of transformation and benefits realisation process and consider the arrangements in place for securing effective clinical governance and engagement.</p> <p>We will review the current arrangements and plans in relation to the IJBs as they develop, sharing best practice.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none">• Value for money in the use of resources• Link between money spent and outputs and the outcomes delivered• Improvement of outcomes• Focus on and pace of improvement.	<p>We will gain an understanding of the Boards self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.</p> <p>We will also consider the arrangements the Board has in place to monitor how it is achieving its Local Delivery Plan targets and addressing areas of poor performance.</p>

Wider scope requirements (continued)

NFI and Performance audits

National Fraud Initiative (NFI)

All health boards, except for the Mental Welfare Commission, are participating in the NFI 2016/17. All data was submitted in October 2016 and boards will receive matches for investigation in January 2017.

In the Board's 2015/16 annual report, Audit Scotland concluded that the Board actively investigated NFI matches and that there were no issues of concern regarding the 2014/15 exercise.

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress during 2016/17 and complete an NFI audit questionnaire by 30 June 2017. The information contained in this questionnaire will be used for Audit Scotland's NFI report to be published in June 2018.

Performance audits

In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits and to inform wider analysis on the following subjects during the year:

Purpose	Date
Contribute to report on Health and Social care integration: part 2	Spring 2017
Contribute to follow up Role of Boards	30 June 2017

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on the material issues and significant judgements identified, by using our expertise in the health sector and elsewhere to provide robust challenge to management;
- We will obtain a deep understanding of your Board, its environment and of your processes in key areas – such as income recognition, payroll expenditure, and capital expenditure - enabling us to develop a risk-focused approach tailored to the Board;
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve Estates specialists to support the audit team in our work, leading to high quality understanding and challenge; and
- In order to deliver a quality audit to you, each member of the core audit team has received tailored training to develop their expertise in audit skills which includes local Engagement Team Based Learning. This is a director led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide health training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

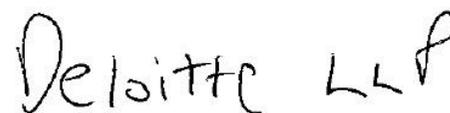
What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated separately on 27 January 2017.
- We will update you if there are any significant changes to the audit plan.

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



Deloitte LLP

Chartered Accountants

Glasgow

27 January 2017

This report has been prepared for the Audit Committee, 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.

Appendices

Fraud responsibilities and representations

Responsibilities explained



Your 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.

Our responsibilities

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in achievement of expenditure resource limits and management override of controls as a key audit risk for your organisation.

Fraud characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
(i) management; (ii) employees who have significant roles in internal control; or (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations (continued)



We will make the following inquiries regarding fraud:

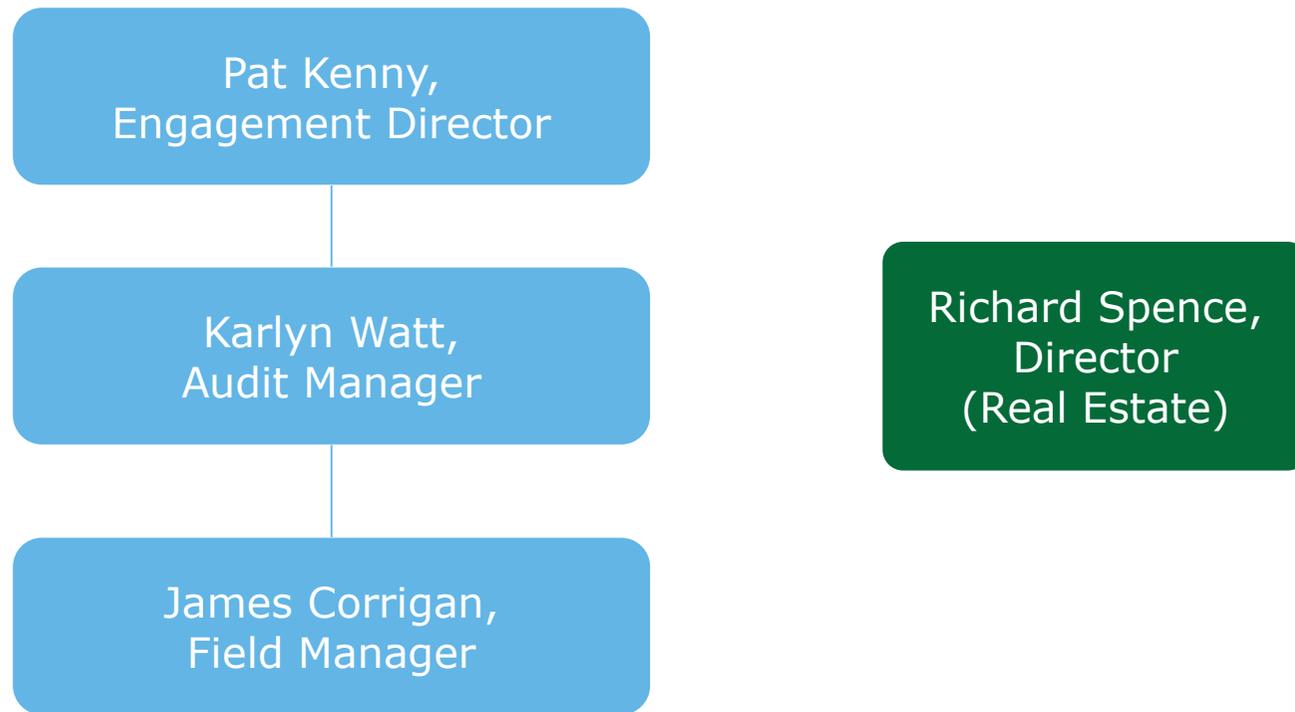
Management	Internal Audit & Local Counter Fraud Specialist	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>We plan to involve management from outside the finance function in our inquiries.</p>	<p>Whether internal audit and the Local Counter Fraud Specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.</p>	<p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>The views of those charged with governance on the most significant fraud risk factors affecting the entity.</p>

We will also perform procedures in relation to the National Fraud Initiative as set out on page 16.

Your audit team and timetable

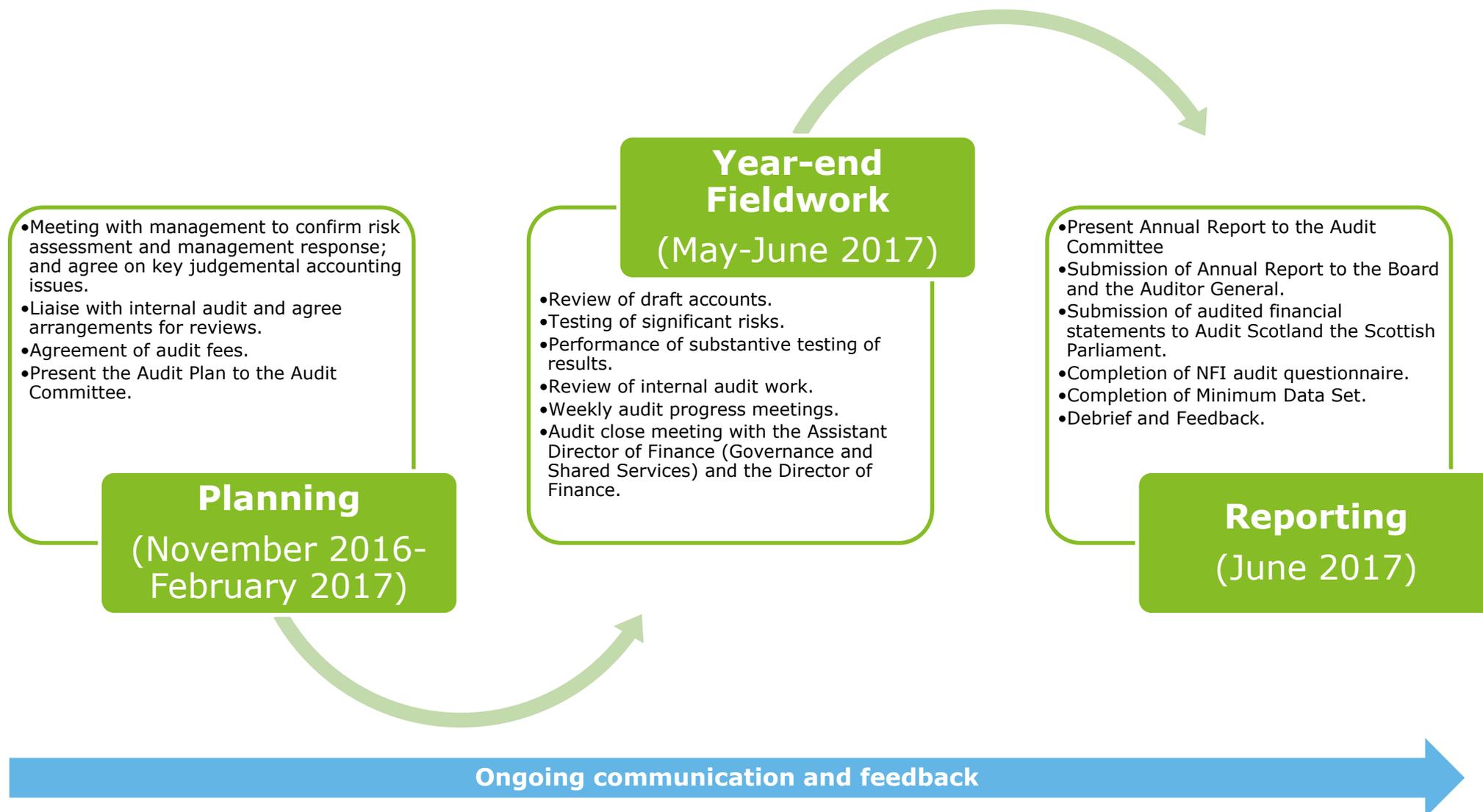
We have a highly experienced audit team

We set out below our audit engagement team. We manage our audit on a basis that it draws on the expertise of our public sector group.



Your audit team and timetable (continued)

Set out below is the approximate expected timing of our reporting and communication with NHS Ayrshire and Arran and Audit Scotland.



Independence and fees



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

Independence confirmation

We confirm we are independent of the Board and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2017 in our final report to the Audit Committee.

Fees

The audit fee for 2016/17, in line with the fee range provided by Audit Scotland in late December 2016, is £182,892 as analysed below:

	£
Auditor remuneration	145,882
Audit Scotland fixed charges:	
Pooled costs	21,330
Performance audit and Best Value	8,050
Audit support costs	7,630
Total proposed fee	182,892

Details of all non-audit services fees for the period will be presented in our final report.

Non-audit services

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

Our approach to quality

AQR team report and findings

Audit quality and regulation

We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2016 the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the year ended 31 March 2016. We adopt an open and communicative approach with the regulator and their report is an accurate reflection of our efforts to improve audit quality across our practice over a number of years.

The review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to identify the underlying cause. This then drives our careful consideration of each of the FRC's comments and recommendations, as well as findings arising from our own reviews to provide further impetus to our quality agenda.

18 of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. No audits were assessed as requiring significant improvements. We have already taken action to respond to the key themes of the report and will continue to undertake further inputs to our audit quality improvement programmes to embed the changes into our practice.

The AQR's conclusion on Deloitte

"We reviewed selected aspects of 22 individual audits in 2015/16. In selecting which aspects of an audit to inspect, we take account of those areas identified to be of higher risk by the auditors and Audit Committees, our knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements.

In response to our last inspection report, the firm has made a number of improvements to its policies and procedures:

- The firm's guidance regarding the testing of journals has been enhanced.
- Additional sector-specific training was provided for individuals involved in financial services audits, together with additional training on internal controls for all audit staff.
- The firm has made a number of improvements to its internal monitoring process, including the development of a moderation process in order to increase consistency.

Our key findings in the current year requiring action by the firm are that the firm should:

- Improve the extent of challenge of management in relation to areas of judgment, in particular for impairment reviews and judgmental valuations.
- Improve aspects of its audit approach in the areas of revenue and inventory.
- Ensure high quality reporting to Audit Committees is achieved on a consistent basis.
- Strengthen its audit approach in relation to defined benefit pension scheme balances and disclosures.
- Strengthen its policies and procedures regarding the engagement quality control review process."

2015/16 Audit Quality Inspection Report on Deloitte LLP

Our approach to quality (continued)

AQR team report and findings (continued)

Review of individual audits

The following chart provides a summary of the AQR's assessment of the quality of our individual audits inspected in 2015/16, with comparatives for the previous 4 years. The chart also shows the 5 year average of Deloitte and the 5 year average of the 6 largest firms inspected by the AQR (which comprises Deloitte LLP, Ernst & Young LLP, KPMG LLP, PricewaterhouseCoopers LLP, BDO LLP and Grant Thornton UK LLP).

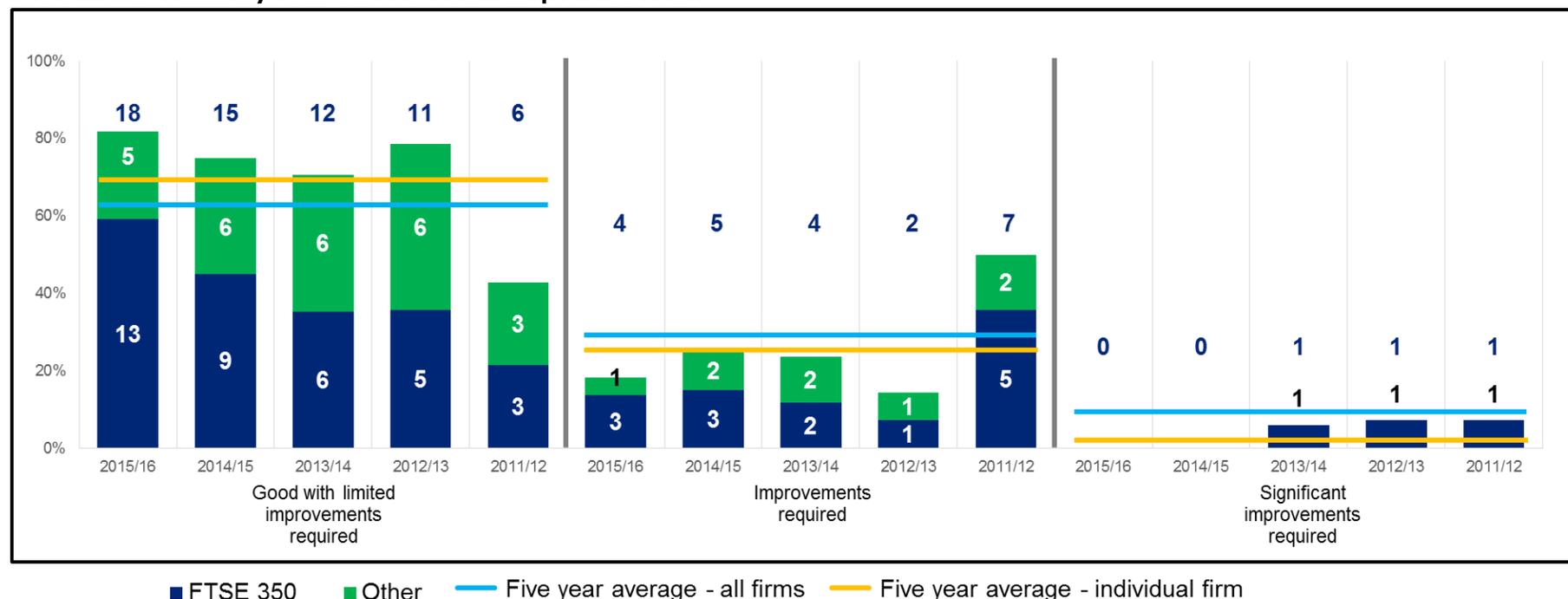
The AQR categorises audits as either:

- Good with limited improvements required
- Improvements required
- Significant improvements required

Changes to the proportion of audits reviewed falling within each grade from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For this reason, and given the sample sizes involved, changes in gradings from one year to the next are not necessarily indicative of any overall change in audit quality at the firm.

All the AQR public reports on individual firms are available on its website <https://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports.aspx>

Deloitte LLP summary of individual audits inspected results





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