

# NHS Highland

2023/24 Annual Audit Report



Prepared for the Board of NHS Highland and the Auditor General for Scotland  
June 2024

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# Key messages

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## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 The timescales for the preparation and audit of health accounts is over a condensed period. We received the draft annual report and accounts slightly later than the agreed date in the Annual Audit Plan. We worked with the finance team to maintain audit delivery targets and the annual report and accounts were certified on 28 June, in line with national targets.

## Financial management

- 3 NHS Highland has effective financial management arrangements in place for reporting its financial position. However, the 2023/24 budget was set projecting a deficit position.
- 4 After receiving tailored support from the Scottish Government and additional funding including £29.5 million repayable brokerage, NHS Highland ended the year with a £0.27 million surplus. However, NHS Highland continues to face significant challenges in meeting its budgetary requirements.
- 5 We identified some areas for improvement in the financial systems of internal control.

## Financial sustainability

- 6 NHS Highland is facing unprecedented financial challenges during 2024/25 and, based on the projected financial position over the next 3 years, we have concluded that NHS Highland's position is not financially sustainable in the medium term.
- 7 The reduction in capital funding and the pause on capital projects increases reliance on an aging estate. It is likely backlog maintenance costs will increase adding to the financial pressures faced by NHS Highland.

## Vision, leadership and governance

- 8 NHS Highland's Annual Delivery Plans aim to deliver the sustainable changes and reform needed to position the board's services for the longer term.
- 9 NHS Highland has effective and appropriate governance arrangements for delivery of its plans, however, it is recognised that senior management and

the board will increasingly have to make challenging decisions to address NHS Highlands financial and performance challenges.

- 10** The Board have carried out a self-assessment against the Blueprint for Good Governance and is making good progress in implementing an improvement plan to address areas where the Board members survey scores showed improvement was needed, with eight out of 17 actions completed by the end of December 2023.
- 11** NHS Highland is continuing to implement the recommendations from the Independent Review Panel of the Healing Process and has developed a leadership and culture transformation programme to develop leadership capability and implement cultural change.

### **Use of resources to improve outcomes**

- 12** NHS Highland has appropriate arrangements for performance monitoring and reporting.
- 13** NHS Highland has an appropriate and effective best value framework and improvements are being made in the reporting of best value.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 annual audit of NHS Highland. The scope of the audit was set out in an Annual Audit Plan presented to the March 2024 meeting of the Audit Committee (AC). This Annual Audit Report comprises:

- significant matters arising from an audit of NHS Highland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the Board of NHS Highland and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** Claire Gardiner has been appointed by the Auditor General as auditor of NHS Highland for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of her five-year appointment.

**4.** We would like to thank Board members, Audit Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit.

## Responsibilities and reporting

**5.** NHS Highland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Highland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**6.** The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK (ISAs).

**7.** Weaknesses or risks identified in this report are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Highland from its responsibility to address the issues raised and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

## **Auditor independence**

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £238,430, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## **Adding value through the audit**

**10.** The annual audit adds value to NHS Highland by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

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# 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

The timescales for the preparation and audit of health accounts are over a condensed period. We received the draft annual report and accounts slightly later than the agreed date in the Annual Audit Plan. We worked with the finance team to maintain audit delivery targets and the annual report and accounts were certified on 28 June, in line with national targets.

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## Audit opinions on the annual report and accounts are unmodified

**11.** The Board approved the annual report and accounts for NHS Highland and its group for the year ended 31 March 2024 on 28 June 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- Expenditure and income were in accordance with applicable enactments and guidance.
- The audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual.
- The performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Overall materiality was assessed on receipt of the unaudited annual report and accounts as £19.5 million

**12.** The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors

set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**13.** Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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## Exhibit 1

### Revised materiality values for NHS Highland and its group

Materiality level	Amount
Overall materiality	£19.5 million
Performance materiality	£13.6 million
Reporting threshold	£0.5 million

Source: Audit Scotland

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**14.** The overall materiality threshold was set with reference to gross expenditure excluding contributions to the Integration Joint Board, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality. This has been informed by our planning work which did not identify any significant issues and reflects the lack of historical / prior year errors in the accounts.

**16.** It is our responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with the board.

## Significant findings and key audit matters

**17.** Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices.

**18.** The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance. The significant findings, including key audit matters, are summarised in [Exhibit 2](#).



## Exhibit 2

### Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p><b>1. Pension asset/liability accounting treatment</b></p> <p>NHS Highland has a pension fund asset of £1.4 million at 31 March 2024 in respect of NHS Highland Council social care staff who transferred to NHS Highland in 2012. Accounting for the Local Government Pension Scheme within NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension asset/liability recognised within the Statement of Financial Position, instead the impact of the asset/liability is removed to other reserves.</p>	<p>We received e-mail confirmation from Scottish Government that this accounting treatment is acceptable.</p> <p>In our Annual Audit Report 2022/23 we recommended that NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of this departure from IAS 19 requirements (note this was also a recommendation of the previous auditors, Grant Thornton in 2021/22). This recommendation remains outstanding and requires to be addressed by March 2025 as a matter of priority.</p> <p>We have followed up outstanding actions in <a href="#">Appendix 1</a> and this is <b>recommendation 3</b> the prior year actions table.</p>
<p><b>2. Restricting the value of pension asset</b></p> <p>For the first time, the unaudited accounts included a pension asset rather than a liability. This amounted to £1.4 million and was calculated by the actuary employed by The Highland Council to provide figures on NHS Highland's behalf.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future</p>	<p>We found that NHS Highland had not requested the amended IFRIC calculation from the council and consequently we have been unable to confirm the accuracy of the pension reserve figure at 31 March 2024.</p> <p>The asset recognised by NHS Highland is £1.4 million and the application of the asset ceiling cannot reduce the asset to lower than zero. The maximum misstatement in the accounts is therefore £1.4 million which is not considered material.</p> <p><b>Recommendation 1</b></p> <p>We recommend that NHS Highland review all guidance and consider technical accounting issues prior to the audit commencing (refer <a href="#">Appendix 1</a>, action plan).</p>

Issue	Resolution
<p>service cost less the present value of the minimum funding requirement contributions.</p> <p>Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p>	
<p><b>3. Lease agreements</b></p> <p>We performed testing of eight leases and were unable to agree the terms for three of the leases, for one of these there was no agreement available, this was also the case in 2022/23.</p>	<p>In our 2022/23 Annual Audit Report we recommended that a review should be undertaken of lease agreements to ensure the terms of the agreements are clear and up to date.</p> <p>Management have started reviewing lease agreements and a review of the most significant lease had been carried out to support our audit work in June 2024.</p> <p>We have received assurance that there is no material misstatement in the audited accounts.</p> <p>Refer to <a href="#">Appendix 1</a> for our follow up of prior year actions (prior year <b>recommendation 4</b>).</p>
<p><b>4. Non-current assets impairment review</b></p> <p>In accordance with IAS 36, an item of property, plant and equipment or an intangible asset may not be carried in the balance sheet at more than its recoverable amount.</p> <p>NHS Highland does not have formal procedures in place to identify assets which should be reviewed for impairment, there is only evidence to support consideration for assets which have been revalued in 2023/24.</p>	<p>An impairment review should be carried out for all assets where there is an impairment indicator and involves estimating an asset's recoverable amount and comparing it with its carrying value. If the recoverable amount is lower than the carrying value, the asset is impaired and must be written down to the recoverable amount.</p> <p>We have performed additional audit procedures to confirm the risk of material misstatement due to assets which have not been impaired is low.</p> <p><b>Recommendation 2</b></p> <p>We recommend that procedures should be formalised to ensure consideration of assets for impairment is carried out consistently and in accordance with the requirements of the Capital Accounting Manual (refer <a href="#">Appendix 1</a>, action plan).</p>
<p><b>5. Accounting for service concession arrangements</b></p> <p>We considered the accounting treatment of NHS Highland service concession</p>	<p>We are satisfied that the opening and closing liability figures for service concession arrangements are not materially misstated.</p>

Issue	Resolution
<p>arrangements. Our estimate of the opening liability differed from that calculated by NHS Highland by £3.4 million due to the information input into the accounting model.</p> <p>Additionally, a difference of £0.6 million was identified in the closing liability figure from our estimations.</p> <p>Given the differences were not material we have not taken further action.</p>	

Source: Audit Scotland

## Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

**19.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Audit Response	Conclusion
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Assessed the design and implementation of controls over journal entry processing.</li> <li>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.</li> <li>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Considered the need to test journal entries and other adjustments throughout the year.</li> </ul>	<p>Our inquiries of officers of potentially inappropriate or unusual activity relating to the processing of journal entries, and other adjustments, confirmed that these were valid transactions.</p> <p>We did not identify any significant transactions outside the normal course of business.</p> <p>We undertook detailed control and substantive testing of journal entries, accruals and invoices. Our journal testing included a data analytics review to identify key risk factors.</p>

Audit risk	Audit Response	Conclusion
	<ul style="list-style-type: none"> <li>• Evaluated significant transactions outside the normal course of business.</li> <li>• Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantively tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Performed focussed testing of accounting accruals and prepayments.</li> </ul>	<p>We also reviewed accounting estimates and transactions for appropriateness.</p> <p><b>Conclusion:</b> We did not identify any incidents of management override of controls.</p>
<p><b>2. Accounting for service concession arrangements</b></p> <p>The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements. NHS Highland must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments and ensure that the financial statements accurately reflect the impact of the revised IFRS 16 accounting arrangements.</p>	<ul style="list-style-type: none"> <li>• Assessed NHS Highland's arrangements for adopting this new accounting requirement.</li> <li>• Reviewed detailed working papers to support the evaluation and assess the conclusions reached by NHS Highland.</li> <li>• Assessed the adequacy of NHS Highland's financial statements disclosures regarding service concession arrangements.</li> </ul>	<p>We concluded that NHS Highland has appropriate arrangements in place to apply the IFRS16 accounting requirements to the five service concession arrangements.</p> <p>Our review of the working papers, including the source data from the underlying financial models, confirmed that the IFRS16 accounting requirements have been correctly applied to three of the four service concession arrangements. We noted that for one model our reperformance procedures gave differing results from the Scottish Government model as outlined at <a href="#">Exhibit 2</a>. We are satisfied this would not result in a material misstatement.</p>

Audit risk	Audit Response	Conclusion
		We are satisfied that NHS Highland's financial statements include adequate disclosures regarding its four service concession arrangements.

Source: Audit Scotland

**20.** In addition, we identified “areas of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus along with our results and conclusions are set out in [Exhibit 4](#).

## Exhibit 4

Areas of audit focus identified in our Annual Audit Plan

Audit risk	Results and conclusion
<p><b>1. Estimation in the valuation of other land and buildings</b></p> <p>NHS Highland hold land and buildings with a NBV of £428 million as at 31 March 2023. These assets are revaluated on a five-year rolling basis by external valuers. Valuations are based on specialist and management assumptions and small movements in these can result in material changes to valuations. There is also the risk, for those assets not subject to revaluation in-year, that the carrying value does not reflect current value. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and asset values are free from material misstatement.</p>	<p>We reviewed the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. We also considered the risk in relation to assets not subject to revaluation in-year, that the carrying value does not reflect current value.</p> <p>We concluded that land and buildings asset values were not materially misstated.</p>
<p><b>Pension liabilities</b></p> <p>NHS Highland is in a unique position in recognising a pension fund liability for social care staff who transferred from Highland Council with membership of the Local Government Pension Scheme. NHS Highland use an actuary to provide an estimate of the liability in line with IAS 19, however, there is a departure from the requirements of IAS 19 as the pension liability impact is removed to</p>	<p>We received e-mail confirmation from Scottish Government that this accounting treatment is acceptable.</p> <p>We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions. This work included identifying significant actuarial assumptions which involve local factors, and we confirmed that these assumptions fall within an acceptable range. We identified that</p>

Audit risk	Results and conclusion
<p>other reserves. The subjectivity around the actuarial estimates and the departure from accounting standards increases the risk of misstatement. We will review the documentation in place to support the accounting treatment and evaluate the reasonableness of the actuary.</p>	<p>unusually a pension asset was recognised at 31 March 2024. This requires additional work by NHS Highland which was not carried out.</p> <p>At <a href="#">Exhibit 2</a> we have highlighted that NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of the departure from IAS 19 requirements and the issue with the asset ceiling.</p> <p>We are satisfied that the pension asset figure in the accounts is not materially misstated.</p>

Source: Audit Scotland

**21.** We kept these areas under review throughout the audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

### **There were no identified misstatements within the financial statements**

**22.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. However, the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Our audit identified no misstatements above our reporting threshold.

### **The unaudited annual report and accounts were received later than the agreed timetable**

**23.** The audit of the accounts takes place over a condensed period in May and June. A template that is used to populate the unaudited annual report and accounts was received two days after our agreed audit timetable of 15 May 2024. The annual report and accounts and supplementary working papers package were incomplete. The package did not include a finalised Performance Report and there were arithmetical and consistency issues and omitted transactions, balances, and disclosures. These outstanding items were provided to external audit during May and early June. This adds additional pressure for the audit team and finance staff in concluding the audit by the statutory 30 June deadline.

**24.** We acknowledge that most of the delay is due to national issues with the template, accounting adjustments and late emerging audit issues. We will work with NHS Highland to improve the process looking forward.

## The performance report and governance statement have improved in 2023/24 but there is a need to develop further

**25.** The performance report provides NHS Highland an opportunity to present a single coherent narrative which explains and complements the financial statements. The performance report should provide information about NHS Highland, its main objectives and strategies and the principal risks that it faces.

**26.** The performance report is a key document in helping stakeholders understand the financial statements and it is important it provides a fair, balanced and understandable analysis of the Board's performance.

**27.** In recent years there has been a recognition that while the performance report is required to be comprehensive it should also be concise. The inclusion of immaterial disclosures can inhibit the ability of users to identify and understand relevant information.

**28.** Our review of NHS Highland's performance report and governance statement found that they had improved since 2022/23 with fewer typographical errors and a more consistent narrative. However, we identified a number of areas where both statements were not compliant with the FReM and where there were inconsistencies in reporting.

**29.** There were a number of instances where information was duplicated or was superfluous to the needs of the reader in understanding the financial statements. Only information that is material to the users of the accounts should be included. We accept it is management's judgement as to what should be included in their annual report and accounts. We would encourage NHS Highland to assess the relative importance of matters in relation to the Board's development, performance position and future prospects.

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### Recommendation 3

The Performance Report and Governance Statement should be reviewed to improve the clarity of messaging and remove items surplus to reporting requirements.

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### Some progress was made on prior year recommendations

**30.** NHS Highland has made some progress in implementing the agreed prior year audit recommendations. Recommendations regarding the 2023/34 budget gap, user access to bankline and authorisation of journals have been fully implemented.

**31.** For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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### Conclusion

NHS Highland has effective financial management arrangements in place for reporting its financial position. However, the 2023/24 budget was set projecting a deficit position.

After receiving tailored support from the Scottish Government and additional funding including £29.5 million repayable brokerage, NHS Highland ended the year with a £0.27 million surplus. However, NHS Highland continues to face significant challenges in meeting its budgetary requirements.

We identified some areas for improvement in the financial systems of internal control.

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### NHS Highland ended the year with a £0.27 million surplus against its revised Revenue Resource Limit

**32.** The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

**33.** [Exhibit 5](#) shows that the board operated within its limits during 2023/24. At the start of 2023/24, NHS Highland was projecting a year-end overspend of £68.7 million, but this position was predicated on delivering £29.5 million of savings through a cost improvement programme. With continuing increased supplementary staffing, drugs and energy costs, it became apparent by June 2023 that NHS Highland would be unable to deliver the planned efficiencies.

**34.** Recognising the significant challenges NHS Highland was facing, tailored support was offered by the Scottish Government Health Finance team and this enabled NHS Highland to place greater focus and scrutiny on the financial position. Monitoring of the financial position by the Finance, Resource and Performance Committee moved to a monthly basis from bi-monthly and was driven by the Efficiency & Transformation Group which was set up early in 2023/24.

**35.** Quarterly monitoring has been established with the Scottish Government and NHS Highland has reported that it has engaged fully in all national



initiatives to improve financial efficiency through the national Finance Improvement Group.

**36.** These actions helped NHS Highland deliver £13.6 million efficiencies, and £18 million non-recurring benefit by the end of the financial year.

**37.** During the year, additional funding of £35 million was provided by the Scottish Government.

**38.** The savings and additional funding, together with financial flexibilities and repayable brokerage funding of £29.5 million provided by the Scottish Government, enabled NHS Highland to end the year with a surplus of £0.27 million.

## Exhibit 5

Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,012.74	1,012.47	0.27
Non-core revenue resource limit	32.03	32.03	0
<b>Total revenue resource limit</b>	<b>1,044.77</b>	<b>1,044.50</b>	<b>0.27</b>
Core capital resource limit	31.23	31.23	0
Non-core capital resource limit	0.31	0.31	0
<b>Total capital resource limit</b>	<b>31.54</b>	<b>31.54</b>	<b>0</b>
<b>Cash requirement</b>	<b>1076.31</b>	<b>1076.04</b>	<b>0.27</b>

Source: NHS Highland Annual Report and Accounts 2023/24

## Integration Joint Board outturn and impact on NHS Highland

**39.** Argyll & Bute Health and Social Care Partnership (HSCP) reported a year end underspend of £2.8 million. This was achieved through additional funding allocations, lower than anticipated service demand, savings on drugs and slippage on project timelines. The underspend will be carried forward in the IJB General Reserve.

## Highland Health and Social Care Partnership

**40.** Highland Health & Social Care Partnership reported an overspend of £10.6 million mainly due to additional costs in relation to locums and agency nursing cover, increased prescribing and costs of drugs.

**41.** Adult Social Care is reported within the Highland Health & Social Care Partnership as a delegated function from The Highland Council. Although the service has reported a break-even position in the year, this has been through the use of reserves generated in previous years and additional Scottish Government funding. A significant financial pressure has been identified for 2024/2025 and NHS Highland and The Highland Council are working together to develop plans to close the identified funding gap.

### **2023/24 Capital Programme**

**42.** NHS Highland spent the full capital allocation of £31 million on capital works and purchases during 2023/2024. The main areas of spend were on improvements to Grantown Health Centre, improvements within Raigmore Maternity and refurbishment of the car park at Raigmore Hospital. In addition there was preliminary spend on the Belford and Caithness redesign projects, however, both of these projects have been paused following a reduction in available capital funding.

### **Completion of the National Treatment Centre Highland**

**43.** The National Treatment Centre Highland (NTC), designed to help reduce the waiting times for patients across the Highlands, opened to patients in April 2023 and was officially opened by the First Minister in June 2023. The project cost a total of £14 million (£0.940 million of which was spent in 2023/24) and was delivered within budget and on time.

### **We identified some areas for improvement in the financial systems of internal control**

**44.** Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

**45.** Our 2023/24 testing covered key controls in a number of areas including payroll, journals, and IT access. We identified some areas where controls can be strengthened, as outlined in [Exhibit 6](#).

**46.** These findings impacted on our audit approach as we needed to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

**47.** Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

## Exhibit 6

### Key findings from review of key controls

Audit finding	Additional audit procedures
<p><b>1. Payroll- Validation checks</b></p> <p>We reported in our Annual Audit Report 2022/23 that we had identified a controls weakness in the staff list verification exercise, as officers advised that there were some budget holders who did not respond to the exercise. We also noted that evidence is not maintained of the verification exercises carried out.</p> <p>There is a risk that payments are made to fictitious employees or employees who no longer work for NHS Highland.</p>	<p>We substantively tested an extended sample of paid employees to ensure they exist as current employees through confirmation to other records.</p> <p>No issues were identified.</p> <p>We have followed up the prior year recommendation and found that agreed actions to address the control weaknesses were outstanding at 31 March 2024.</p> <p>This is <b>recommendation 5</b> in the prior year actions in <a href="#">Appendix 1</a>.</p>
<p><b>2. Payroll- lack of secondary checks</b></p> <p>The controls in place at NHS Highland rely on secondary checks by more senior officers in a number of places. The role of the second checker is a preventative control to ensure all action has been taken to comply with procedures and mitigate the risk of error. In several places we identified that secondary checks were not operational on a consistent basis:</p> <ul style="list-style-type: none"> <li>• <b>Exception reports:</b> We found that there is no documented review by a Team Leader to confirm that all exceptions have been reviewed.</li> <li>• <b>Annual uprating of pay scales by NHS Tayside on behalf of NHS Highland:</b> We found there were no local controls to verify changes to standing data (Salary bands, tax rates, NI etc.) had been correctly applied by NHS Tayside on behalf of NHS Highland.</li> <li>• <b>Payroll temporary and permanent changes - lack of secondary checking:</b> Validation of starters and leavers were not always checked by the team leader. Due to shortage of resources, checks have been performed on actions considered to be higher risk.</li> </ul> <p>We tested 10 agency payments and found that the wrong hourly rate had been input</p>	<p>We performed analytical procedures to identify any significant variances in the payroll. Our testing did not identify any issues.</p> <p><b>Recommendation 4</b></p> <p>We recommend that management should ensure that secondary checks are carried out on exception reports and all changes to the payroll to mitigate the risk of fraud/error (refer <a href="#">Appendix 1</a>, action plan).</p>

Audit finding	Additional audit procedures
<p>to the payroll system resulting in an overpayment.</p> <p>There is a risk of fraud/error in processing changes to the payroll.</p>	
<p><b>3. PECOS User Access</b></p> <p>The procurement team do not perform regular reviews of the user access list but rely on department managers advising them when users leave and their access should be removed.</p> <p>There is a risk of unauthorised access to PECOS procurement system.</p>	<p>We undertook additional audit procedures to ensure invoices were approved by authorised users and found no issues.</p> <p><b>Recommendation 5</b></p> <p>User access permissions for all financial systems need to be reviewed on a frequent basis to ensure that the permissions granted are appropriate to job roles and relate only to current employees (refer <a href="#">Appendix 1</a>, action plan).</p>
<p><b>4. Cash and Bank</b></p> <p>We identified an issue with the cash and bank module in the ledger which is unable to prevent duplicate invoices being paid.</p> <p>Our review of bank reconciliations identified one duplicate invoice which had been paid due to this default setting in the system.</p> <p>There is a risk of fraud/error in processing payments.</p>	<p>NHS Highland performed additional work and provided confirmation that there no other duplicate payments in 2023/24.</p> <p>Management are actively trying to resolve this issue with the IT provider.</p>

Source: Audit Scotland

## Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions

**48.** The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

**49.** NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap identified last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

**50.** NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

**51.** For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective: “*Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance*”, did not operate effectively during the year.

**52.** For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective: “*Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals*” did not operate effectively during the year.

**53.** Having considered these qualifications in context of other mitigating controls at both NHS National Services Scotland and NHS Highland, and our assessment of materiality, we are content that no change in our audit approach was required.

### **Standards of conduct for prevention and detection of fraud and error are appropriate**

**54.** In the public sector there are specific fraud risks, such as those relating to prescription fraud, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**55.** NHS Highland is responsible for having arrangements to prevent and detect fraud, error and irregularities, bribery and corruption. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. Our conclusion is that NHS Highland has adequate arrangements in place to prevent and detect fraud or other irregularities. This is based on our review of:

- control arrangements
- overall policies and procedures, including codes of conduct for members and officers
- internal audit reports
- Counter Fraud Service reports.

### **National Fraud Initiative**

**56.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Highland participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final report is due to be published in Summer 2024.

**57.** NHS Highland has actively participated in the recent NFI exercise. We concluded that NHS Highland had satisfactory arrangements in place to submit NFI data and investigate any potential frauds.

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# 3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

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## Conclusion

NHS Highland is facing unprecedented financial challenges during 2024/25 and, based on the projected financial position over the next 3 years, we have concluded that NHS Highland's position is not financially sustainable in the medium term.

The reduction in capital funding and the pause on capital projects increases reliance on an aging estate. It is likely backlog maintenance costs will increase adding to the financial pressures faced by NHS Highland.

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## Our work has addressed the wider scope risks identified in the Annual Audit Plan

**58.** In our 2023/24 Annual Audit Plan we identified the following wider scope risk.

- **Financial Sustainability and delivery of outcomes:** NHS Highland has developed a three year financial plan for 2023/24 to 2025/26 which identifies a cumulative funding gap of £69 million in 2023/24 rising to £74 million in 2025/26. NHS Highland has developed a Savings Programme and the Sustainability and Value Programme initiatives have been reviewed with estimates of opportunities allocated across operational areas. A savings/ cost improvement/ cost reduction programme of £29 million is proposed for 2023/2024 but this will only bridge 42% of the projected funding gap for one year. There is a risk to financial sustainability and consequently the ability of NHS Highland to deliver services in the future.

**59.** Our audit findings and conclusions from the work done in this area are summarised below.

## Significant changes are needed to ensure financial sustainability of Scotland's health service

**60.** As highlighted in Audit Scotland's [NHS in Scotland 2023](#) report, significant changes are needed to ensure the financial sustainability of Scotland's health service. Growing demand, operational challenges and increasing costs have added to the financial pressures the NHS was already facing.

**61.** The report contains a series of recommendations for the Scottish Government (alongside the health sector) to address financial sustainability risks. These include the need to:

- Develop a new long-term vision for the wider health system by 2025 that sets out national priorities and recognises the interdependencies in the healthcare system. This should enable the necessary reforms that will ensure the future sustainability of health services.
- Improve understanding of new financial support arrangements and how these impact on the NHS Scotland Support and Intervention Framework.
- Develop and publish a national NHS capital investment strategy in 2024.
- Publish a revised Medium-Term Financial Framework (MTFF) for health and social care, following publication of its wider Medium-Term Financial Strategy (MTFS) in 2024.

**Based on the projected financial position of the board over the next 3 years we have concluded that NHS Highland's operations are not financial sustainable in the medium term**

**62.** NHS Highland's draft three year financial plan was presented to the Finance, Resources and Performance Committee and submitted to the Scottish Government in January 2024. It detailed a projected variance against the Core RRL of £121.3 million, planned savings schemes of £13.9 million, brokerage of £35 million and an unidentified savings gap of £72.4 million.

**63.** Feedback from the Scottish Government confirmed that the plan would not be acceptable as there was a need to deliver a minimum of 3% recurrent savings. Communications with the Scottish Government also confirmed that the brokerage cap would be reduced from £35 million to £28.4 million.

**64.** The Board considered an updated 2024/25 Financial Plan at its meeting on 28 May 2024. The plan sets out a financial gap of £112.5 million prior to the application of savings and brokerage. NHS Highland identified recurring savings of £26.7 million and plans to utilise the available brokerage of £28.4 million, but this still leaves £57.4 million of savings which will be on a non-recurring basis and are not fully identified yet.

**65.** NHS Highland has created a cost reduction programme and identified total savings (recurring and non-recurring) totalling £50.6 million which includes the £26.7million of recurrent savings through the value and efficiency programme, an assumption that the Argyll and Bute Integration Joint Board and the Adult Social Care Lead Agency model both deliver a balanced position and other non-recurrent actions. This leaves a gap of unidentified savings of £22.2 million after the application of the brokerage cap. There are proposals to reduce the deficit, however it is highly unlikely to fully bridge the gap. At May 2024 a strategic assessment of options were being progressed, exploratory work has commenced and NHS Highland will work with the Scottish Government with any identified options.



**66.** Even if NHS Highland achieves the savings set out for 2024/25 within its Financial Plan 2024/25- 2026/27, by the end of the year it will owe £22.2 million. Cumulatively, this will give NHS Highland a £74.172 million repayable brokerage since 2022/23.

**67.** The Financial Plan 2024/25- 2026/27 also identified future funding gaps before savings of £ 100.9 million for 2025/26 and £90.5 million for 2026/27.

**68.** Based on the projected finding gaps over the next three years we have concluded that NHS Highland's position is not financially sustainable over the medium term.

### **Financial recovery for NHS Highland will require radical reform of health services**

**69.** Recognising that the scale of the overall financial challenge varies across boards, NHS Boards have been categorised into three groups (Tailored Support; Enhanced Monitoring and Quarterly Engagement), to ensure Scottish Government support is directed based on need. NHS Highland remains at escalation stage 3, Tailored Support, on the NHS Board Performance Escalation Framework.

**70.** A letter from the Scottish Government's Health and Social Care Finance, Digital and Governance Directorate in May 2024 notified all Chief Executives that Boards at level 2 or 3 of the NHS Scotland Support and Intervention Framework have been given a brokerage cap which cannot be exceeded, or an overspend will show in the financial statements. This does not change the statutory responsibility to break even. The letter also explained that Boards must move quickly to achieve financial balance because as the year progresses, options to reduce the deficit will become more limited, therefore action is required now.

**71.** As highlighted at paragraph 6465. planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services.

**72.** NHS Highland continues to liaise with the Scottish Government to explore all potential choices to move towards financial balance over the next three years. There is recognition that recurring pressures are currently being met with a combination of recurring and non-recurring solutions with an underlying recurring over-commitment. This needs to be addressed as a matter of urgency.

**73.** An effective long term financial recovery plan needs to be introduced, and decisions about the way services are delivered in the short, medium and longer-term based on information about the cost, impact and quality of all available options.

**74.** We will continue to monitor the ongoing dialogue with the Scottish Government and development of credible savings options as part of our audit work in 2024/25.

## The reduction in capital funding presents a range of risks for NHS Highland

**75.** The Scottish Government issued a letter to all Boards in December 2023 which set out that capital funding available over the next three to five years would be less than previously indicated. It instructed boards to immediately stop any project development spend as there would be no funding for development of any new projects in the next two years and advised that capital budgets should instead be directed towards maintaining the existing estate.

**76.** This reduction in overall capital funding, and the instruction to boards to focus on maintenance of the existing estate, impacted key projects at NHS Highland including the Caithness and Lochaber redesign, the maternity unit at Raigmore and the Cowal refurbishment.

**77.** Reflecting the Scottish Government's instructions the planned capital programme focuses on maintenance of NHS Highland's existing estate. NHS Highland recognise the risks around the reduction in capital spend and without capital development projects they are increasingly reliant on an aging estate. There is a risk that backlog maintenance costs will increase.

**78.** Audit Scotland's NHS in Scotland 2023 report set out that there is already a significant backlog of maintenance required across the NHS estate, with the identified backlog now exceeding £1.1 billion. The latest available data as at 31 March 2024 identifies that the board's current condition and performance of the existing estate shows a backlog maintenance cost for the estate totalling £78 million.

**79.** The board recognise in the risk register that the current capital and revenue budgets are not able to address routine maintenance while also reducing the current backlog maintenance requirement.

**80.** The capital allocation for 2024/25 is being prioritised in terms of risk through the Asset Management Governance Group. A reprioritisation exercise for backlog maintenance is being developed and a whole system plan is being developed for submission to the Scottish Government in January 2025.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

NHS Highland's Annual Delivery Plans aim to deliver the sustainable changes and reform needed to position the board's services for the longer term.

NHS Highland has effective and appropriate governance arrangements for delivery of its plans, however it is recognised that senior management and the board will increasingly have to make challenging decisions to address NHS Highlands financial and performance challenges.

The Board have carried out a self-assessment against the Blueprint for Good Governance and is making good progress in implementing an improvement plan to address areas where the Board members survey scores showed improvement was needed, with eight out of 17 actions completed by the end of December 2023.

NHS Highland is continuing to implement the recommendations from the Independent Review Panel of the Healing Process and has developed a leadership and culture transformation programme to develop leadership capability and implement cultural change.

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## NHS Highland has a clear vision and strategy

**81.** We reported in our 2022/23 Annual Audit Report that NHS Highland has a clear strategy *Together we care* which covers the period from 2022-2027. The strategy supports the vision "*outstanding care by an outstanding team*" through three strategic objectives centred around population, partnership and people.

**82.** The strategy is supported by two Annual Delivery Plans (ADP) covering NHS Highland and Argyll and Bute Health and Social Care Partnership (HSCP) which were submitted to the Scottish Government in June 2023. The ADPs are aligned to the *Together we care* strategy and cover the period from 2022-2027. The 2023/24 ADPs set out NHS Highland's plans to deliver against the year 2 strategic priorities.

**83.** NHS Highland has elected to create separate ADP's for NHS Highland and Argyll and Bute HSCP due to the different strategic documents which underpin the ADP's and to more accurately reflect the organisational arrangements. It is recognised that there are many interdependencies and NHS Highland has worked to ensure there is strong read across in the strategic objectives with both organisations.

**84.** The ADP for NHS Highland includes 16 strategic outcomes set across the 10 drivers of recovery set out in the Scottish Government *Delivery Planning Guidance*. Across each of the strategic outcomes the ADP includes the planned actions for the board, however, the actions do not include details of deliverables, milestones, or planned completion dates.

**85.** Progress against the ADP is monitored through integrated performance and quality performance reports which focus on high level targets and performance. The performance reports are presented at each board meeting and clearly outline performance through RAG status.

### **Governance arrangements remain effective and appropriate**

**86.** There have been no significant changes to NHS Highland's governance arrangements in year and they have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. Our assessment included consideration of the:

- Board and committee structure
- conduct of non-executive members and officers at Board and committee meetings, including the openness of the Board and committees
- public access to information via the NHS Highland website
- reporting of performance and whether this is fair, balanced and understandable.

**87.** We attended all AC meetings during 2023/24 and observed good scrutiny, challenge, and deep dives by the members into risk register items of significance. The committees and Board are well attended by all members.

**88.** The format of the management information allows those charged with governance to have oversight of key issues facing NHS Highland, such as staffing levels, funding, and achieving savings targets.

**89.** All members are afforded an opportunity to participate and share views. Members are engaged and operate in an open and transparent manner. Agenda and papers are provided in a timely fashion well in advance of each meeting. At each AC, it is clear the agendas and papers have been read and have been considered prior to the meetings resulting in effective and impactful scrutiny.

## Effective leadership will be needed more than ever to deliver the board's strategic priorities

**90.** NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams. Board executive and non-executive directors have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

**91.** Whilst it is acknowledged by the senior officers and Board that the sustainable and longer-term recovery of the current £112.5 million forecast deficit is crucial, there is no clear plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set. It is important that NHS Highland's senior management team focuses on the actions required to deliver sustainable changes and reform, as well as the more immediate actions to address its financial and performance challenges.

**92.** NHS Highland had a change in Chief Executive on 1 April 2024 and it will be important they can demonstrate the proactive and effective leadership that is needed to drive the required changes and to promote a culture of challenge.

## The Board have carried out a self-assessment against the Blueprint for Good Governance and an improvement plan has been produced

**93.** The NHS Scotland Blueprint for Good Governance states that NHS boards should regularly review their governance arrangements. A self-assessment exercise including a detailed survey and a series of board development sessions was carried out. The key themes emerging from the self-assessment exercise were: performance, finance and best value, risk, culture, quality, board members development, SBAR development and engagement.

**94.** The Board have carried out a self-assessment against the Blueprint for Good Governance and is making good progress in implementing an improvement plan to address areas where the Board members survey scores showed improvement was needed, with eight out of 17 actions completed by the end of December 2023.

## Leadership and culture programme

**95.** NHS Highland is continuing to implement the recommendations from the Independent Review Panel of the Healing Process and has developed a leadership and culture transformation programme to develop leadership capability and implement cultural change. Creating a strong culture will enhance engagement, motivation at work, wellbeing of staff, and improve performance. The Director of People and Culture, appointed in July 2023, has responsibility for driving forward key changes across the organisation and has demonstrated progress across a number of areas of the project so far. Some examples are:

- Developing leadership: implementation of executive team and board development programmes.

- Creating a culture of trust, civility, and psychological safety: a whistleblowing non-executive has been appointed and is undertaking regular visits to meet staff across NHS Highland area, and an independent guardian speak up service has been in place since August 2020.
- Partnership working: local partnership forums are being established across the organisation.
- People processes: the people team has been reviewed and restructured with the introduction of people partners to provide guidance and support across senior leadership teams. Additionally an employee relations toolkit has been developed and is being promoted to support improvements in implementation of formal HR policies and processes. Finally a new corporate induction programme has been implemented.

## Cyber security and risks around use of IT

**96.** There continues to be a significant risk of cyber-attacks to public bodies The real-life experience and impact of the March 2024 cyber-attack on NHS Dumfries and Galloway serves as a timely reminder of that.

**97.** In 2023/24 the Scottish Government appointed the Scottish Health Competent Authority to ensure all health boards are operating in a manner that provides adequate levels of cyber security. Compliance with the NISR is assessed on a regular basis by the Scottish Health Competent Authority, with the actual audit and review process undertaken by a service organisation.

**98.** NHS Highland received the outcome of the review in December 2023. The NISR Review Report 2023 records the board's overall compliance status as 73%.

**99.** The key messages of the report are positive, giving the opinion that: NHS Highland is a strongly performing board with a clear commitment to the NIS audit programme.

**100.** It is important to note that cyber-attacks are designed to circumvent existing controls and the recent attack on NHS Dumfries and Galloway occurred with strong compliance with the NISR and similar results to NHS Highland.

**101.** We are satisfied NHS Highland are not complacent around the cyber security risks and they are appropriately recognised on the risk register. Following the review in year there is a recognition that work is still required to improve the NIS position and continually improve its cyber defences.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

NHS Highland has appropriate arrangements for performance monitoring and reporting.

Service performance against national waiting time standards is reported as being behind target.

NHS Highland has an appropriate and effective best value framework and improvements are being made in the reporting of best value.

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## NHS Highland has appropriate arrangements for performance monitoring and reporting

**102.** NHS Highland reports to the Finance, Resources and Performance Committee and the board throughout the year on performance against a range of national measures and standards, and local measures that align with its strategic direction.

**103.** During 2023/24 performance reports included performance against the national measures including A&E, Inpatient and Outpatient waiting times, and the provision of cancer, mental health, and drug and alcohol services. The performance reports also included details of NHS Highland's performance against other boards and outlines ongoing actions and next steps.

**104.** We concluded that NHS Highland has appropriate arrangements in place for performance monitoring and reporting.

## Service performance against national waiting time standards is reported as being behind target.

**105.** The 2023/24 annual report and accounts include the position at the end of March 2024 on the board's performance against its national waiting time standards. While performance against waiting time standards is not currently the board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 7](#)

demonstrates how activity and waiting times trends and [Exhibit 8](#) provides a comparison of current waiting times compared to prior years and NHS Scotland.

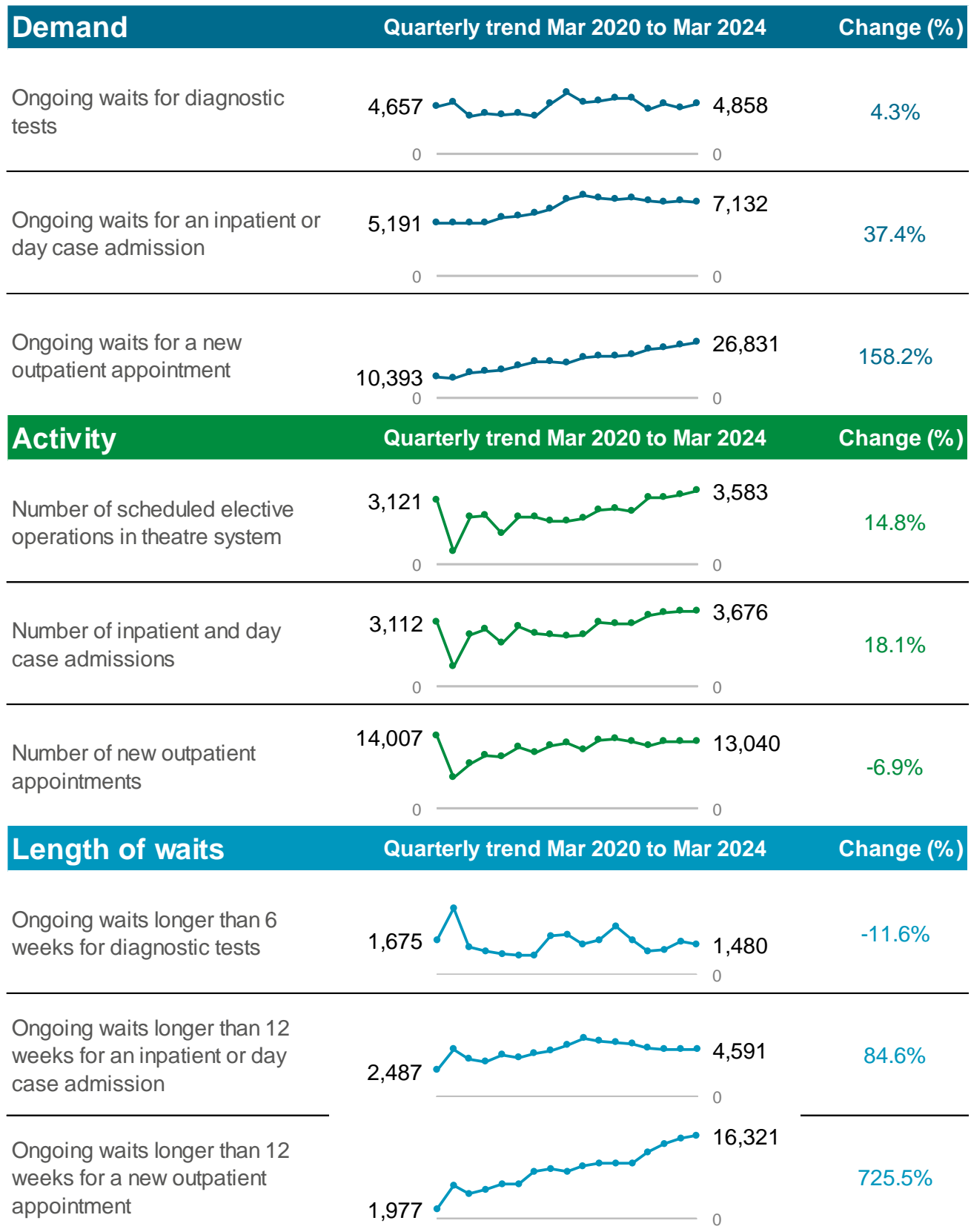
**106.** [Exhibit 7](#) demonstrates that there has been a deterioration in NHS Highland's activity and waiting times performance since the start of the pandemic. The largest increases in [Exhibit 7](#) are in waiting times with one of the most significant being the number of people waiting more than 12 weeks for a new outpatient appointment. This is a trend which is consistent across Scotland and this is reflected in the NHS Scotland position shown in [Exhibit 8](#) which shows the number of outpatient admissions waiting no more than 12 weeks is 61.2% against a national target of 95%.

**107.** [Exhibit 8](#) shows that NHS Highland's performance against key waiting time standards has, in general, deteriorated over the last three years. In comparison to the overall NHS Scotland position NHS Highland is better for 3 measures and worse for 6 measures. In 4 of the 6 measures where NHS Highland is performing worse than the NHS Scotland position the performance is within 3 percentage points of the overall position.



**Exhibit 7**

## NHS Highland Trends in demand and activity per acute services



Source: Public Health Scotland

**Exhibit 8**

## Performance against key waiting time standards

Target/standard	NHS Highland performance			NHS Scotland performance
	March 2022	March 2023	March 2024	March 2024
<b>Cancer 62 Day Referral to Treatment target</b> Proportion of patients that started treatment within 62 days of referral.	76.2%	64.2%	62.4% <sup>1</sup>	71.1% <sup>1</sup>
<b>Cancer 31 Days Referral to Treatment target</b> Proportion of patients who started treatment within 31 days of decision to treat.	93.1%	92.5%	92.2% <sup>1</sup>	94.1% <sup>1</sup>
<b>18 Weeks Referral to Treatment Target</b> Proportion of patients that started treatment within 18 weeks of referral.	67.2%	65.4%	63.7%	65.5%
<b>Patient Treatment Time Guarantee</b> Proportion of inpatients or day cases that were seen within 12 weeks.	68.0%	55.8%	58.6%	57.0%
<b>Outpatients waiting less than 12 weeks</b> Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral.	62.0%	59.4%	59.0%	61.2%
<b>A &amp; E attendees</b> Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours.	87.1%	84.8%	82.5%	66.6%
<b>Drug and Alcohol 21 days</b> Proportion of drug and alcohol patients that started treatment within 21 days.	76.3%	87.3%	90.5% <sup>1</sup>	90.6% <sup>1</sup>
<b>Children and Adolescent Mental Health Services Waiting Times</b> Proportion of patients seen within 18 weeks of referral.	81.7%	73.1%	71.5% <sup>1</sup>	83.8% <sup>1</sup>
<b>Psychological therapies</b> Proportion of patients that started treatment within 18 weeks of referral.	89.4%	83.6%	81.5% <sup>1</sup>	80.6% <sup>1</sup>

Note. 1: As the validated March 2024 data is not yet available for these measures, the December 2023 validated data has been used.

Source: Public Health Scotland

## **NHS Highland has an appropriate and effective best value framework and improvements are being made in the reporting of best value**

**108.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**109.** There is evidence that NHS Highland is continuing to demonstrate best value across a range of areas including planning, performance monitoring and delivery and we are pleased to report that in June 2024, the first annual review of progress against the Scottish Governments best value framework was reported to the Audit Committee.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Restricting the value of pension asset</b></p> <p>For the first time, the unaudited accounts included a pension asset rather than a liability. This amounted to £1.4 million and was calculated by NHS Highland's actuary.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p>	<p>The report from the actuaries noted that there may be a need for additional work to recognise the impact of the asset ceiling. Management should ensure they are appropriately reviewing the outcomes from experts and taking appropriate action.</p> <p>The audit team are happy to engage at an early stage to discuss any complex technical accounting adjustments.</p>	<p><b>Partially accepted</b></p> <p>This is the Highland Council's actuary therefore we have limited control. We can work with the council to ensure they are aware of the NHS Highland reporting requirements.</p> <p><b>Responsible officer</b> <b>Assistant Director of Financial Services</b></p> <p><b>Agreed date September 2024</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p> <p>We found that NHS Highland had not performed the IFRIC calculation and we have been unable to confirm the accuracy of the pension reserve figure at 31 March 2024, although we have confirmed that there is no material error.</p>		
<p><b>2. Non-Current Assets - Impairment reviews</b></p> <p>In accordance with IAS 36, an item of property, plant and equipment or an intangible asset may not be carried in the balance sheet at more than its recoverable amount.</p> <p>An impairment review should be carried out for all assets where there is an impairment indicator and involves estimating an asset's recoverable amount and comparing it with its carrying value. If the recoverable amount is lower than the carrying value, the asset is impaired and must be written down to the recoverable amount.</p>	<p>Procedures should be formalised to ensure consideration of assets for impairment is carried out consistently and in accordance with the requirements of the Capital Accounting Manual.</p>	<p><b>Partially accepted</b></p> <p>Impairments are highlighted as part of the valuation process. Any ad hoc impairments would be identified during regular monthly monitoring meetings and joint agreement between finance and estates would highlight the need for a revaluation at this time. There is no formal process for this. NHS Highland will consider whether a more formal process can be accommodated.</p> <p><b>Responsible officer Capital Accountant</b></p> <p><b>Agreed date September 2024</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p>NHS Highland does not have formal procedures in place to identify assets which should be reviewed for impairment, there is only evidence to support consideration for assets which have been revalued in 2023/24.</p>		
<p><b>3. Performance Report and Governance Statement disclosures</b></p> <p>The draft Performance Report and Governance Statement were reviewed and found to not be FReM compliant in all areas and included information that was superfluous to the needs of users.</p> <p><b>Risk:</b> The board does not comply with FReM disclosure requirements and key messages are lost due to irrelevant information.</p>	<p>The Performance Report and Governance Statement should be reviewed to ensure there is a clear and concise narrative.</p>	<p><b>Partially accepted</b></p> <p>NHS Highland believe that the reports were complete at the time of submission – any omissions were due to data availability and template errors. Responsible officers will continually review and improve the report and will consider feedback provided from audit colleagues.</p> <p><b>Responsible officer</b> <b>Director of Finance</b></p> <p><b>Agreed date March 2025</b></p>
<p><b>4. Payroll – lack of secondary checks</b></p> <p>We found there to be a lack of secondary checking of</p> <ul style="list-style-type: none"> <li>• Exception reports</li> <li>• Annual uprating of payscales, NI</li> <li>• permanent and temporary changes to standing data.</li> </ul> <p><b>Risk:</b> There is a risk of fraud/error in the payroll.</p>	<p>Management should ensure that secondary checks are carried out on exception reports and all changes to the payroll to mitigate the risk of fraud/error.</p>	<p><b>Accepted</b></p> <p>Process will be implemented.</p> <p><b>Responsible officer Payroll Manager</b></p> <p><b>Agreed date end December 2024</b></p>
<p><b>5. PECOS user access</b></p> <p>The procurement team do not perform regular reviews of the user access list but rely on department managers advising them when users leave and their access should be removed.</p>	<p>User access permissions for all financial systems need to be reviewed on a frequent basis to ensure that the permissions granted are appropriate to job roles and relate only to current employees.</p>	<p><b>Accepted</b></p> <p>Review has commenced. Additional information to be provided through the HR team with leaver reports.</p>

Issue/risk	Recommendation	Agreed management action/timing
<b>Risk:</b> There is a risk of unauthorised access to PECOS procurement system.		<b>Responsible officer</b> <b>Strategic procurement officer</b>  <b>Agreed date September 2024</b>

## Follow-up of prior year (2022/23) recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>1. Unaudited accounts</b></p> <p>We received the first version draft of the Annual Report and Accounts on 17 May 2023, eight days later than agreed. The draft omitted a number of key statements and figures including the Governance Statement, the Remuneration Report, pension fund figures and related disclosures. The draft also contained a significant number of presentational errors requiring correction.</p>	<p>Management agreed to work together with Audit Scotland to agree a timetable that includes the Annual report, Financial Performance report and Accounts whilst being mindful of the elements that are outside of the Boards control Such as the Remuneration report and pension fund figures.</p> <p>End of December 2023</p>	<p><b>Ongoing</b></p> <p>We worked closely with management to ensure there were no delays in receiving the unaudited accounts. Issues outwith the control of management meant that a complete set of accounts could not be prepared in line with the agreed timetable.</p> <p><b>Revised action</b></p> <p>NHS Highland complied with the action requirement and provided information to the deadline where possible. Any delays were outwith the team's control and cannot be mitigated. However, NHS Highland worked with the audit team to ensure that information was available to progress the audit to negate any delays.</p> <p><b>Responsible officer</b></p> <p><b>Revised date N/a</b></p>
<p><b>2. Contract income</b></p> <p>We tested a sample of 30 income transactions and found two instances where contracts with providers were not in place or out of date.</p>	<p>Management agreed to ensure the correct documentation have been reviewed and updated where appropriate.</p> <p>End of December 2023</p>	<p><b>Implemented</b></p>

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<p><b>3. Pension liability accounting treatment</b></p> <p>NHS Highland has a pension fund liability of £4.5 million as at 31 March 2023 in respect of NHS Highland Council social care staff who transferred to NHS Highland in 2012. Accounting for the Local Government Pension Scheme within NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the Statement of financial position, instead the impact of the liability is removed to other reserves.</p> <p><b>Risk:</b> There is a risk that the accounting treatment of the Pension Liability is not in accordance with requirements of IAS 19 or in line with the expectations of Scottish Government.</p>	<p>NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of this departure from IAS 19 requirements.</p>	<p><b>Not implemented.</b></p> <p>In year the audit team received an e-mail from the Scottish Government confirming they were satisfied with the ongoing treatment. This is not sufficient as ongoing evidence of the treatment. Where there is deviation from accounting standards this should be formally communicated through accounts directions. We encourage NHS Highland to address this as a matter of priority.</p> <p><b>Revised action</b></p> <p>Ongoing discussions with Scottish Government. NHS Highland has limited control over this action and continue to raise with SG.</p> <p><b>Responsible officer</b> <b>Assistant Director Financial Services</b></p> <p><b>Revised date March 2025</b></p>
<p><b>4. Leases</b></p> <p>We tested a total of 7 leases and were unable to confirm the terms of the lease for four of the agreements.</p> <p>Furthermore, for one of the payments sampled there was no lease agreement available to support the payment, only an invoice.</p> <p><b>Risk:</b> There is a risk of error in the accounts.</p>	<p>A review should be undertaken of lease agreements to ensure the terms of the agreements are clear and up to date.</p>	<p><b>Ongoing</b></p> <p>Management have started reviewing lease agreements and a review of the most significant lease had been carried out to support our audit work in June 2024.</p> <p><b>Responsible officer:</b> Deputy Director of Estates, Facilities and Capital Planning</p> <p><b>Agreed date:</b> by the end of March 2025</p>
<p><b>5. Payroll validation checks</b></p> <p>We identified a controls weakness in the staff list verification exercise, as officers advised that there</p>	<p>Robust validation controls should be implemented to ensure staff do not remain on the payroll after their date of leaving.</p>	<p><b>Not implemented</b></p> <p>We are aware that evidence of budget holder review of staff within their team is not maintained and in some</p>



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<p>were some budget holders who did not respond to the exercise. We also found that evidence is not maintained of the verification exercises carried out.</p> <p><b>Risk:</b> There is a risk that payments are made to fictitious employees or employees who no longer work for NHS Highland.</p>		<p>areas responses were not received.</p> <p><b>Revised action: Action remains the same and will be progressed</b></p> <p><b>Responsible officer Payroll Manager</b></p> <p><b>Revised date end December 2024</b></p>
<p><b>6. Changes to supplier details</b></p> <p>We tested 15 changes to supplier details and only one was concluded as satisfactory. For the 14 changes concluded as unsatisfactory, we found that procedures to verify changes were in place but had not been followed.</p> <p><b>Risk:</b> There is a risk of exposure to fraud.</p>	<p>Agreed procedures need to be followed for all changes to supplier details.</p>	<p><b>Partially implemented</b></p> <p>Management provided refresher training and updated the standard operating procedures to include checks to verify supplier change requests. However, we found that staff were not following procedures but relying on the bank to provide assurances.</p> <p><b>Revised action</b></p> <p>SOP need to be updated to reflect when it is appropriate for staff to contact the suppliers and when bank assurance is sufficient.</p> <p><b>Responsible officer Head of Financial Services</b></p> <p><b>Revised date end of September 2024</b></p>
<p><b>7. Financial sustainability</b></p> <p>NHS Highland has developed a three year financial plan for 2023/24 to 2025/26 which identifies a cumulative funding gap of £69 million in 2023/24 rising to £74 million in 2026.</p> <p>NHS Highland has developed a Savings Programme and the Sustainability and Value Programme initiatives have</p>	<p>It is crucial that medium to longer term solutions are identified to bridge the projected funding gaps which threaten the financial sustainability of the board.</p>	<p><b>Ongoing</b></p> <p>We have highlighted in our report the significant financial challenges across the NHS sector. We are aware NHS Highland are continuing to develop long term plans to address the budget gap and we have recognised that difficult decisions may need to be made.</p>

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<p>been reviewed with estimates of opportunities allocated across operational areas. A savings/ cost improvement/ cost reduction programme of £29 million is proposed for 2023/2024 but this will only bridge 42% of the projected funding gap for one year.</p> <p><b>Risk:</b> There is a risk to future financial sustainability and consequently the ability of NHS Highland to deliver services in the future.</p>		<p><b>Revised action</b> This is ongoing and planning and reporting will be through the Finance, Resource and Performance Committee</p> <p><b>Responsible officer</b> Director of Finance</p> <p><b>Revised date no completion date as ongoing.</b></p>
<p><b>8. Best Value</b></p> <p>There is evidence of best value being demonstrated by NHS Highland across a range of areas including planning, performance monitoring and delivery, however the mechanism for formally reviewing and reporting on the arrangements to secure best value has not been formalised or published.</p>	<p>A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed. The outcome of the assessment should be reported to the board.</p>	<p><b>Complete</b></p> <p>Management have approved a Best Value Framework to formally assess the board's Best Value arrangements and the first report against the framework is expected in 2024/25.</p>

# NHS Highland

## 2023/24 Annual Audit Report

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