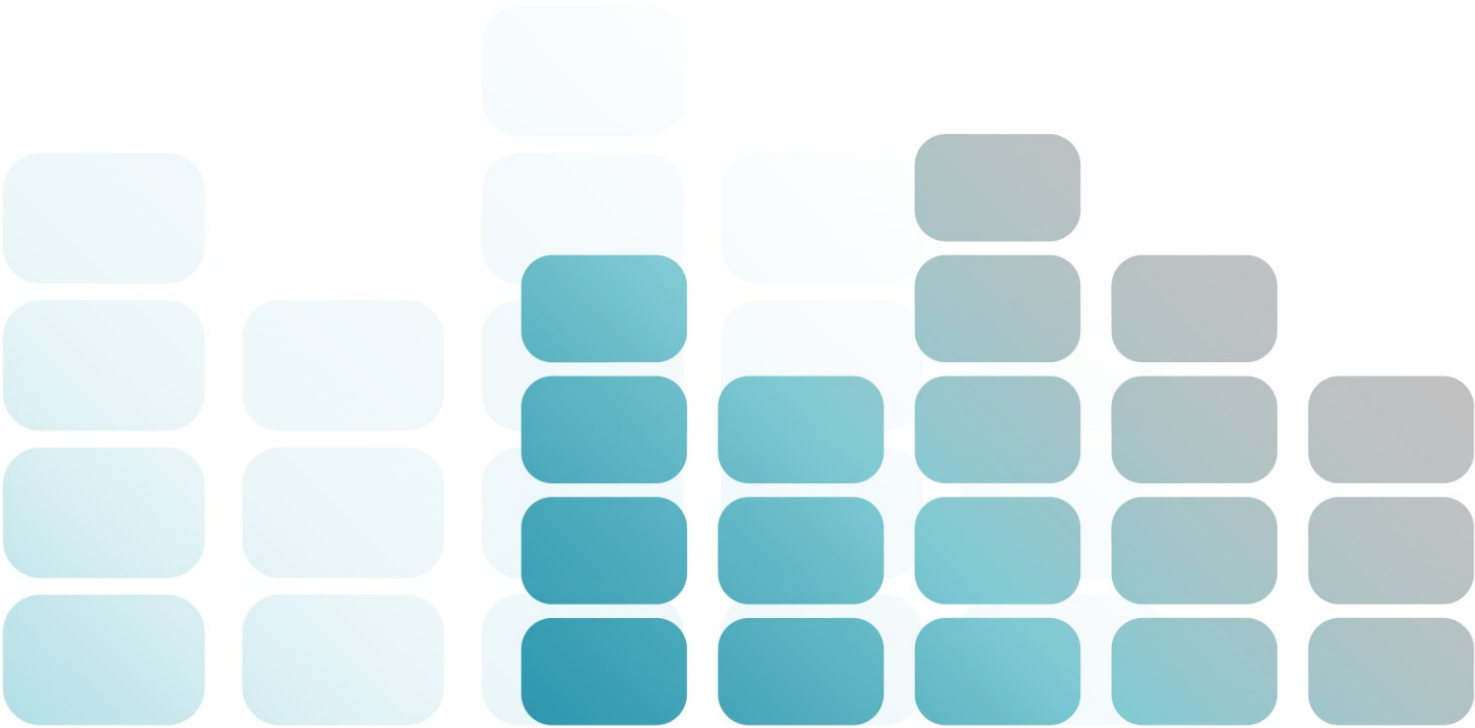


NHS Highland

Annual Audit Plan 2024/25



Prepared for NHS Highland
February 2025

Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	11
Reporting arrangements, timetable and audit fee	13
Other matters	16

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of NHS Highland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

Appointed auditor and independence

2. Claire Gardiner, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of NHS Highland for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of her five-year audit appointment.

3. The appointed auditor and the audit team are independent of NHS Highland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of NHS Highland to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, including the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration Report and Staff Report.
- Conclusions on NHS Highland's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership and Governance, and Use of Resources to Improve Outcomes.
- Reporting on NHS Highland's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of NHS Highland and the auditor. A summary of the key responsibilities is outlined below.

Auditor responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on arrangements in place for the wider scope areas.

NHS Highland responsibilities

8. NHS Highland has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. The concept of materiality is used to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

12. The materiality levels determined for the audit of NHS Highland and its group are outlined in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for NHS Highland and its group

Materiality	NHS Highland and its Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of NHS Highland’s operations, the benchmark used to determine materiality is gross expenditure excluding the contribution to the Integration Joint Board (IJB) based on the audited 2023/24 financial statements. Materiality has been set at 2.0% of the benchmark.	£26 million

Materiality	NHS Highland and its Group
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 70% of planning materiality.	£18 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.7 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of NHS Highland, including:

- the nature of its operations and its significant transaction streams;
- the system of internal control;
- governance arrangements and processes; and
- developments that could impact on its financial reporting.

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

15. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to NHS Highland and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>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>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Source: Audit Scotland

Key audit matters

16. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

17. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.

- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

18. The matters determined to be key audit matters will be communicated in the Annual Audit Report.

19. In addition to the significant risks of material misstatement in [Exhibit 2](#), the following areas of specific audit focus have been identified as part of our planning process and will be reported on in the Annual Audit Report:

- **Estimation in the valuation of land and buildings:** NHS Highland held land and buildings with a net book value of £442 million as at 31 March 2024. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. There is also a 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.
- **Estimation of the pension liability:** 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 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. We will also evaluate the competence, capabilities and objectivity of the actuary, and the adequacy of their work.

Group Audit

20. NHS Highland is part of a group and prepares group financial statements. The group is made up of three components, including NHS Highland which is the parent of the group.

21. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3**Outcome of risk assessment procedures on the group audit**

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
NHS Highland	Parent body	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
Highland Health Board Endowment Funds	Accounted for on a line by line basis	No- not material to the group financial statements	Limited to analytical procedures only	MacKenzie Kerr
Argyll and Bute IJB	Accounted for on equity basis	No- not material to the group financial statements	Limited to analytical procedures only	Mazars

Source: Audit Scotland

Wider scope and Best Value

Introduction

22. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on NHS Highland being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. Financial pressures within the NHS are forecast to continue and making savings on a recurring basis remains challenging. We will consider NHS Highland's ongoing work towards achieving a balanced financial position and their approach to identifying recurring savings.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. We will consider the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. We will consider NHS Highland's arrangements for reporting and managing performance and the process in place for delivering continuous improvement.

23. A conclusion on the effectiveness and appropriateness of arrangements NHS Highland has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

24. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

25. Consideration of the arrangements NHS Highland has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements NHS Highland has in place will be reported in the Annual Audit Report.

26. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the characteristics. However, auditors are required to carry out a review of the ‘fairness and equality’ characteristic at least once during the audit appointment, and this will be carried out later in the audit appointment.

Wider scope and Best Value risks

27. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified one area where we will increase focus as part of the 2024/25 audit of NHS Highland as outlined in Exhibit 4. We will report our conclusions and recommendations from this work in our Annual Audit Report.

Exhibit 4
Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial sustainability</p> <p>NHS Highland is forecasting a break-even position at the end of 2024/25. This is dependent on confirmed brokerage of £49.7 million and the planned achievement of £18 million savings within Adult Social Care services by the end of March 2025.</p> <p>The level of brokerage funding required to date continues to highlight the extent of the financial challenges facing the board and presents a significant risk to the sustainability of services in the future.</p>	<p>The audit team will:</p> <ul style="list-style-type: none">• Review of budget monitoring process and reports.• Review of short and medium-to-longer term financial plans.• Review and report on the board’s year-end position and plans for future recovery

Reporting arrangements, timetable and audit fee

Audit outputs

28. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to NHS Highland, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to NHS Highland and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

29. The matters to be reported in the outputs will be discussed with NHS Highland for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

30. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 30 June 2025 for NHS bodies.

31. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 June 2025.

Audit timetable

32. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with NHS Highland and reported to those charged with governance, where required.

Exhibit 5

2024/25 audit timetable

Audit activity	NHS Highland target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	31 March 2025	11 March 2025
Annual report and accounts:			
• Submission of unaudited annual report and accounts and all working papers to audit team	12 May 2025	N/A	N/A
• Consideration of unaudited annual report and accounts by those charged with governance	13 May 2025	N/A	13 May 2025
• Latest date for audit clearance meeting	6 June 2025	6 June 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	16 June 2024	16 June 2025	24 June 2025
• Agreement of audited and unsigned annual report and accounts	24 June 2025	24 June 2025	24 June 2025
• Approval by those charged with governance and signing of audited annual report and accounts	24 June 2025	24 June 2025	24 June 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report	24 June 2025	24 June 2025	24 June 2025

Source: Audit Scotland

Audit fee

33. NHS Highland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is £243,060.

34. In setting the audit fee, it is assumed that NHS Highland has effective governance arrangements in place and the complete annual report and

accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

35. NHS Highland is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

36. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

37. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

38. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

39. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

40. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

41. Audit Scotland may periodically seek the views of NHS Highland on the quality of audit services provided. The audit team would also welcome feedback at any time.

NHS Highland

Annual Audit Plan 2024/25



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot