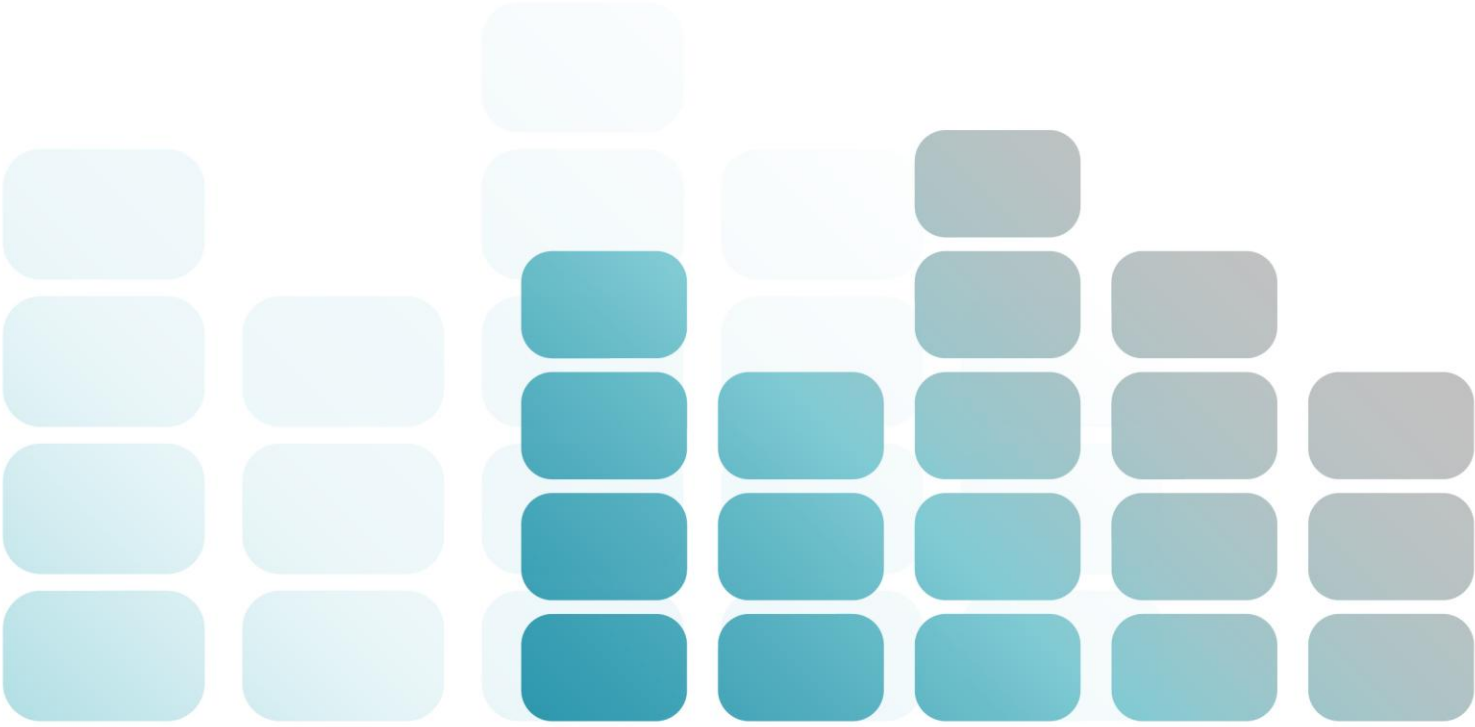


NHS Borders

Annual Audit Plan 2025/26



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Accessibility

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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 2025/26 audit of NHS Borders' 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. John Boyd, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of NHS Borders for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. John Boyd and the audit team are independent of NHS Borders 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 Borders 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.
- An opinion on the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and the Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on NHS Borders' 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 Borders' 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 Borders and the auditor. A summary of the key responsibilities is outlined below.

Auditor's 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 NHS Borders' arrangements in place for the wider scope areas.

NHS Borders' responsibilities

8. NHS Borders 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 that give a true and fair view and other information.
- 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. The concept of 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. Broadly, the concept of materiality is 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 Borders and its group are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for NHS Borders and its group

Materiality	NHS Borders	Group
<p>Materiality – based on an assessment of the needs of users of the financial statements and the nature of NHS Borders' operations, the benchmark used to determine materiality is gross expenditure (less IJB contributions) based on the audited 2024/25 financial statements. Using professional judgement and consideration of overall risk, materiality has been set at 1.5% of the benchmark.</p>	£6.000million	£6.075million

Materiality	NHS Borders	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 75% of planning materiality.	£4.500million	£4.553million
Reporting threshold – all misstatements greater than the reporting threshold will be reported. Using professional judgement, reporting threshold has been set at 5% of planning materiality.	£0.300million	£0.304million

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 Borders, 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 and Exhibit 2 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 Borders 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 of material fraud or error. • 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.

Risk of material misstatement	Planned audit response
<p>Risk of fraud in the completeness of expenditure</p> <p>There is a presumed risk of fraud in expenditure recognition in public bodies as management may fraudulently recognise expenditure to achieve a desired financial position.</p> <p>There is a risk that management may look to defer expenditure to future periods to reduce expenditure recognised in 2025/26 to achieve the year-end target of a deficit not greater than £10m as agreed with the Scottish Government.</p> <p>We have reviewed NHS Borders' expenditure streams to identify those where there is an increased risk of material misstatement. For payroll expenditure, independent primary care services expenditure, expenditure with other NHS bodies, contributions to Integration Joint Boards including resource transfer, expenditure with voluntary organisations and private providers, and depreciation and amortisation we considered the opportunity and incentive for material misstatement in expenditure recognition through fraud to be low.</p> <p>However, we have concluded that the remaining expenditure streams are not routine in nature or there is a greater opportunity and/or incentive to manipulate these expenditure streams, therefore the presumed risk is considered to exist in these expenditure streams. The Board is required to operate within financial targets and the focus on financial performance is most acute at the year end. Therefore, we consider the greatest risk of material misstatement to be around the year end. Our audit focus is on completeness of these expenditure streams.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Assess the design of controls over non-pay expenditure processing via walkthroughs. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of non-pay expenditure transactions and other adjustments. • Detailed testing of completeness of non-pay expenditure transactions where there is an increased risk of material misstatement with a focus on expenditure transaction recorded in period 1 of 2026/27 to confirm costs have been recognised in the appropriate period. This includes testing of bank transactions to identify any unrecorded expenditure. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of expenditure and accruals. • Review expenditure accruals for indication of understatement.

Risk of material misstatement	Planned audit response
<p>Estimation in the valuation of land and buildings</p> <p>NHS Borders held £129.1million of land and buildings at 31 March 2025.</p> <p>NHS Borders is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> <p>A full revaluation is commissioned every five years or when NHS Borders considers there is a potential significant movement in year. The latest full revaluation was carried out at 31 March 2023. A full revaluation is not planned for 31 March 2026. The property adviser will identify a recommended indexation uplift for properties.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation/indexation process. • Review the information provided to the external valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Review reports from the external valuer to confirm overall asset valuation movements. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the completeness and accuracy of the key data and assumptions used in the 2025/26 valuation/indexation process, and challenge these where required. • Review the indices applied by management to assets not subject to formal valuation in 2025/26 and assess if these are reasonable and have been correctly applied. • Review management's assessment that the value in the balance sheet of land and buildings assets not subject to a valuation or indexation process in 2025/26 is not materially different to current value at the year-end, and challenge this where required.

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. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Assurance Gaps with Third Party Providers

19. In our 2024/25 Annual Audit Report we recommended that NHS Borders continue to engage with NHS NSS and wider NHS Scotland to address the assurance gap over eFinancials general IT controls and PECOS hosting arrangements. As part of our 2025/26 audit we will review progress in this area.

Group audit

20. NHS Borders is part of a group and prepares group financial statements. The group is made up of three components, including NHS Borders which is the parent of the group. 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 is 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 Borders	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
Borders Health Board Endowment Fund (“NHS Borders Health Charity”)	Consolidated on a line-by-line basis	No, and is not material to group financial statements.	Yes - analytical procedures at group level.	Thomson Cooper

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Scottish Borders Integration Joint Board	Accounted for on equity basis	No, and is not material to group financial statements.	Yes - analytical procedures at group level.	Audit Scotland

Source: Audit Scotland

Wider scope and Best Value

Introduction

21. 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 Borders 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. This is assessed by considering NHS Borders' medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering 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. This is assessed by considering NHS Borders' arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

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

Duty of Best Value

23. 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.

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

25. Auditors may also carry out specific audit work covering the seven Best Value themes set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the themes. However, auditors are required to carry out a review of the ‘fairness and equality’ theme at least once during the audit appointment, and this was carried out as part of a prior year audit.

Wider scope and Best Value risks

26. The risk assessment process has identified risks in the wider scope areas and Best Value as outlined in Exhibit 4, and this includes the planned audit procedures in response to the risks.

Exhibit 4 Wider scope risks

Description of risk	Planned audit response
<p>1. Financial management</p> <p>NHS Borders’ initial three-year financial plan 25/26-27/28 identified a projected deficit of £12.8million for 2025/26. This included a savings target of £14.6million.</p> <p>The Board’s three-year financial plan has been conditionally approved by Scottish Government. One condition was that the Board identify actions to deliver an improved in-year financial performance at a target deficit of no greater than £10m in 2025/26.</p> <p>The Board’s amended forecast at Month 9 indicates that delivery of £10m deficit in-year is achievable.</p> <p>The Board have identified a number of risks to the year-end forecast including non-delivery of savings, prescribing costs, staff costs and service demand.</p>	<p>To assess the reasonableness of the Board’s financial management arrangements the audit team will:</p> <ul style="list-style-type: none"> • Discuss the development of financial plans with NHS Borders and progress towards setting balanced budgets. • Assess progress made by NHS Borders in understanding its underlying cost base and the extent to which cost control measures have been implemented in-year to meet financial targets. • Compare the 2025/26 financial outturn and achievement of savings against the financial plan. • Assess if any financial plans developed are aligned to the Board’s strategic plans and priorities.

Description of risk	Planned audit response
<p>2. Financial sustainability</p> <p>The Board's 2025/26-2027/28 financial plan identified a brokerage liability of £50.3million as at the end March 2025, with a projected further cumulative deficit of £46.7million over the period of the plan.</p> <p>The financial plan identifies that should 3% savings continue to be delivered annually the Board would be in a position to achieve a breakeven position by 2030.</p> <p>The Board recognises that the level of brokerage liability and accumulated deficit presents a significant risk to the ongoing sustainability of NHS Borders and continues to work with the Scottish Government to address the sustainability challenges.</p> <p>The Board has also experienced challenges in meeting performance targets. With the current level of financial pressures, the Board faces significant challenges in maintaining or improving service delivery.</p>	<p>To assess the reasonableness of the Board's arrangements for delivering financial sustainability the audit team will:</p> <ul style="list-style-type: none"> • Monitor NHS Borders' financial position and plans, including underlying savings plans, as reported to the board / relevant committees. • Assess the measures put in place by the board to establish grip and control of both financial and non-financial performance. • Review any assessment of NHS Borders' future financial position (including outputs from the financial improvement programme and recovery plans). • Assess the reasonableness of the scenario planning work that has been undertaken to inform strategic planning. • Assess progress made by NHS Borders in implementing sustainable transformational change to address financial targets while meeting performance targets.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

27. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to NHS Borders, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to NHS Borders 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, recommendations, where required, and any good practice identified.

28. The matters to be reported in the outputs will be discussed with NHS Borders 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.

29. 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 2026 for NHS bodies.

30. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 June 2026.

Audit timetable

31. 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 Borders and reported to those charged with governance, where required.

Exhibit 5

2025/26 audit timetable

Audit activity	NHS Borders target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		6 March 2026	23 March 2026
Annual report and accounts:			
<ul style="list-style-type: none"> Consideration of unaudited annual report and accounts by those charged with governance 	25 May 2026		25 May 2026
<ul style="list-style-type: none"> Submission of unaudited annual report and accounts and all working papers to audit team 	5 May 2026		
<ul style="list-style-type: none"> Latest date for audit clearance meeting 	15 June 2026	15 June 2026	
<ul style="list-style-type: none"> Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report 		17 June 2026	24 June 2026
<ul style="list-style-type: none"> Agreement of audited and unsigned annual report and accounts 	19 June 2026	19 June 2026	
<ul style="list-style-type: none"> Approval by those charged with governance and signing of audited annual report and accounts 	24 June 2026		24 June 2026
<ul style="list-style-type: none"> Signing of Independent Auditor's Report and issue of Annual Audit Report 		By 30 June 2026	

Source: Audit Scotland

Audit fee

32. NHS Borders' audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is set out in [Exhibit 6](#).

33. In setting the audit fee, it is assumed that NHS Borders 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.

Exhibit 6

Audit fee

Fee component ¹	Fee (£)
External auditor remuneration	160,680
Pooled costs, such as travel and subsistence costs	18,400
Contribution to audit support costs, including technical guidance and support to auditors	0
Total 2025/26 fee	179,080

Source: Audit Scotland

¹ Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

Other matters

Internal audit

34. NHS Borders 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.

35. 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 2025/26 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

36. 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](#).

37. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 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.

38. 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.

39. 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.

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

NHS Borders

Annual Audit Plan 2025/26



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