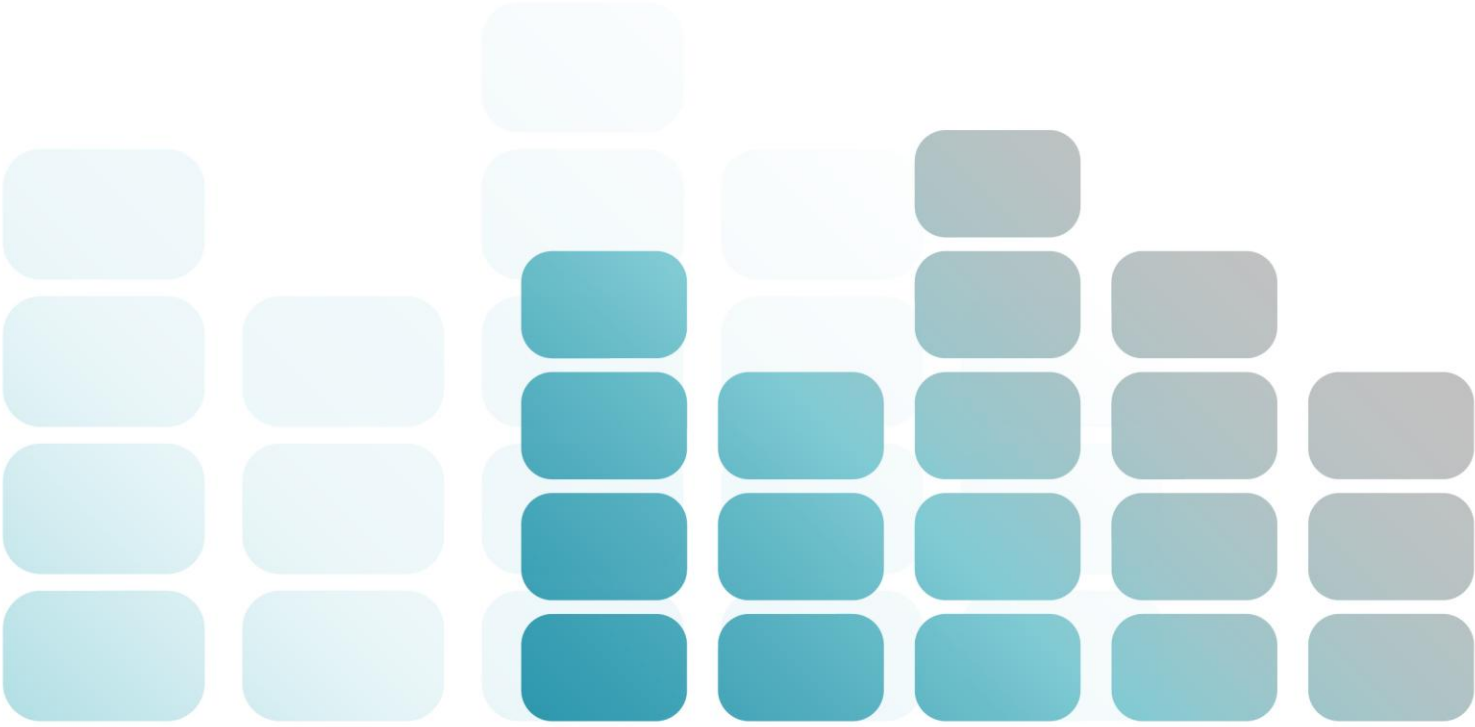


NHS Highland

Annual Audit Plan 2025/26



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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 Highlands'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 2025/26 financial year is therefore the fourth of the 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, namely the Performance Report and the Governance Statement.
- 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'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 Highland's arrangements in place for the wider scope areas.

NHS Highland's 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 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. 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 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

2025/26 Materiality levels for NHS Highland and its group

Materiality	Value
<p>Materiality – based on an assessment of the needs of users of the financial statements and the nature of NHS Highland operations, the benchmark used to determine materiality is gross expenditure excluding the contribution to the Integration Joint Board (IJB) based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.</p>	£28 million

Materiality	Value
<p>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.</p>	£21 million
<p>Reporting threshold – all misstatements greater than the reporting threshold will be reported.</p>	£1 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 the same exhibit.

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 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 at the year-end and post-closing entries and focus on those assessed as higher risk. • Consider the need to test journal entries and other adjustments throughout the year. • 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. • Focused testing of accounting accruals and prepayments.

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. In addition to the significant risks of material misstatement [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 £435 million as at 31 March 2025. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. NHS Highland operates a rolling programme to revalue all land and buildings over a five-year cycle. For assets not revalued in the current year, indexation is applied in accordance with the requirements of the Government Financial Reporting Manual (FRoM).

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

19. 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.

20. 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 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 group financial statements	Limited to analytical procedures only	Mazars

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 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. This is assessed by considering NHS Highland’s 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 Highland’s 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 Highland 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 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.

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. Auditors are required to carry out a review of the 'fairness and equality' theme at least once during the audit appointment, and this will be carried out during the 2025/26 audit.

Significant wider scope and Best Value risks

26. The risk assessment process has identified significant 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

Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial sustainability</p> <p>NHS Highland agreed a budgeted shortfall of £40 million for 2025/26 with the Scottish Government. This position has since deteriorated to a projected £50 million shortfall by the end of March 2026, primarily due to ongoing pressures associated with the funding of Adult Social Care services.</p> <p>The level of funding required to date continues to demonstrate the severity of the financial challenges facing the board and represents a significant risk to the long-term sustainability of services.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Discuss with NHS Highland if any financial plans have been developed. • Review any financial plans developed and assess the appropriateness of the financial plans and any assumptions made. • Assess if any financial plans developed are aligned to the NHS Highland Corporate Plan and priorities. • Review and report on the board's year-end position and plans for future recovery

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 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, recommendations, where required, and any good practice identified.

28. 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.

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 Highland and reported to those charged with governance, where required.

Exhibit 5

2025/26 audit timetable

Audit activity	NHS Highland target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	31 March 2026	10 March 2026
Annual report and accounts:			
• Submission of unaudited annual report and accounts and all working papers to audit team	13 May 2026	N/A	N/A
• Consideration of unaudited annual report and accounts by those charged with governance	14 May 2026	N/A	14 May 2026
• Latest date for audit clearance meeting	5 June 2026	5 June 2026	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	15 June 2026	15 June 2026	24 June 2026
• Agreement of audited and unsigned annual report and accounts	24 June 2026	24 June 2026	24 June 2026
• Approval by those charged with governance and signing of audited annual report and accounts	24 June 2026	24 June 2026	24 June 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report	24 June 2026	24 June 2026	24 June 2026

Source: Audit Scotland

Audit fee

32. NHS Highland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £253,610.

33. 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

34. 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.

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 Highland on the quality of audit services provided. The audit team would also welcome feedback at any time.

NHS Highland

Annual Audit Plan 2025/26



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