



# NHS Highland

**External Audit Report for the financial year ended 31 March 2020**

Final Annual Report to the Board and the Auditor General for  
Scotland

**Joanne Brown**  
Engagement Leader

**John Boyd**  
Audit Director

**Hannah McKellar**  
Audit Associate



# Financial statements audit at a glance



We received a good set of primary financial statements. However, due to the COVID-19 outbreak and Management's focus on the Board's response, there were delays in receiving the Accountability Report, Governance Statement and Performance Report as well as the notes to the financial statements including accounting policies. We thank management for their support and assistance throughout the audit.



The Accountability Report is in line with our understanding of NHS Highland and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework. The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder. The disclosures in the Remuneration and Staff report are consistent with underlying payroll records.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This final report to the Board and the Auditor General concludes our work.

An audit  
underpinned by  
quality and adding  
value to you



We have issued an unmodified audit opinion on the annual report and accounts. Our audit opinion includes an emphasis of matter paragraph in relation to the material uncertainty over the valuation of land and buildings arising as a result of Covid and the forecasted economic downturn.



Significant audit risks are: management override of controls; the risk of fraud in revenue recognition; the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10, and, the valuation of property. Plant and equipment. An additional significant audit risk was identified in relation to Covid-19, reported to management in early May, which caused significant disruption to all public sector entities in the later half of March 2020.



We updated our audit materiality to reflect your 2019/20 draft financial statements. Materiality is set at £9.941million for the Group consisting of the accounts of NHS Highland and the NHS Highland Endowment Fund (Board only: £9.925 million). This represented 1% of gross expenditure excluding Argyll and Bute IJB transactions which we exclude on the basis that the nature of recording transactions with the IJB effectively double counts income and expenditure transactions.

# Wider scope dimensions at a glance



NHS Highland continues to face considerable performance challenges. Across the National standards and local KPIs reported to the Board in May 2020, the Board were only achieving 35% of these. In particular, many of the indicators show increasing waiting times for patients throughout 2019/20 against the defined standards. An ongoing challenge for the Board is in relation to the level of capacity, including access to relevant specialists to meet the increasing demand. This continues to be a key area of focus for the Board.



During the year NHS Highland made a number of new appointments to senior management positions, with knowledge and experience that will benefit NHS Highland. Some of these appointments are interim therefore changes to the composition of the senior management team will continue at least in the short term. NHS Highland is facing multiple challenges including the cultural change in its response to the Sturrock report, the requirement to improve performance against targets, and delivering a financial recovery programme. NHS Highland would benefit greatly from a period of sustained stability in its leadership team to ensure continuity in its direction and service delivery.



The Board has made substantial progress in the year in delivering over £28 million of savings. However NHS Highland still face financial challenges to deliver the level of savings required to return to a future financially sustainable operating model. NHS Highland's Annual Operational Plan (AOP) (2020-2023) outlines savings totalling £87.7 million over the next three years. NHS Highland forecast that it will require brokerage funding of £8.8 million in 2020/21 in order to achieve financial balance.

Our audit work includes consideration of NHS Highland in respect of the wider scope audit dimensions: financial management, financial sustainability, governance and transparency, and value for money.



We have raised four audit recommendations for Management as well as following up our 2018/19 recommendations. Our wider scope audit work considered the findings of the 2018/19 Auditor General for Scotland's Section 22 Report. We found that while the Board continue to face significant challenges including financial sustainability and establishing stable strategic leadership, as reflected in this report, the Board has demonstrated progress in addressing previous findings.



NHS Highland met its key financial targets for 2019/20 achieving a £0.411 million surplus against their revenue resource limit of £751.766 million. However, this was delivered through planned receipt of brokerage funding from the Scottish Government of £11 million.



Since 1 April 2012, health and social care in the North Highland region has been formally integrated through the lead agency model. The Integration Scheme and Partnership Agreement is due for renewal at the end of June 2020 and discussions have taken place to agree how the financial gap of £9.5 million will be funded, recognising the growing demand on Adult Social Care services. It is important that NHS Highland work with Highland Council to develop a funding arrangement within the overall partnership agreement that supports the provision of efficient, effective and sustainable adult social care services in the region.

“

### **Adding value through our external audit work**

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, underpinned by our quality arrangements, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of NHS Highland's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of NHS Highland as an organisation. During 2019/20, reflecting on prior year feedback from NHS Highland, we sought to complete our wider scope prior to the year end audit. This included meeting with Board Chair during the year to try to support them in their governance changes. Unfortunately, due to the impact of the COVID-19 pandemic, the level of wider scope we could complete in advance of the year end audit was limited and therefore our work was conducted during the year end audit process. For 2020/21 we will look to engage with Management and complete our wider scope work earlier in the financial year. We will continue to look to support the Audit Committee, including offering training for members. Through our audit reporting and meetings with management we aim to share our wider NHS and public sector experience including emerging issues and wider insights from England. We also have representation on NHS Scotland Technical Accounting Group (TAG) to ensure we have sufficient understanding of the latest technical accounting guidance and practice.

”

# Contents

<b>Section</b>	<b>Page</b>
Introduction	6
Responding to significant risks	9
Accounting policies	14
Narrative elements of your annual accounts	17
Financial management	18
Financial sustainability	22
Governance and transparency	26
Value for money	31
 <b>Appendices:</b>	
Audit adjustments	34
Action plan and recommendation	37
Follow up of 2018/19 recommendations	39
Audit fees and independence	43
Fraud arrangements	44
Communication of audit matters	45

# Introduction

## Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of NHS Highland. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised, and the accounts are laid in parliament this report will be made publicly available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented to the NHS Highland Audit Committee on 17 June 2020 and updated for the NHS Highland Board meeting on 23 June 2020 alongside the draft financial statements. The final financial statements were approved by the Board on 30 June 2020.

We would like to thank NHS Highland's management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit.

Our wider scope risks identified at planning are concluded on in this report. We have also included wider commentary and conclusions on the key areas of wider scope risk we have identified for NHS Highland, covering financial management, financial sustainability, Governance and transparency and value for money.



## Our Opinion

For the financial year ended 31 March 2020 we have issued an **unmodified audit opinion**:

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of NHS Highland
- Other prescribed matters (which include the audited information in the remuneration report)

## Emphasis of matter – property valuation

We draw attention to NHS Highland's annual report and accounts Note 1.29 to the financial statements, which describes the basis for valuing land and buildings (including dwellings). Management engaged an expert to value their land and buildings portfolio. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently less certainty and a higher degree of caution should be attached to management's valuation than would normally be the case. Our opinion is not modified in respect of this matter.

## Materiality

Our audit approach was set out in our audit plan presented to the Audit Committee on 17 December 2019. We updated our audit materiality to reflect your 2019/20 draft financial statements, setting materiality at £9.941million for the Group (Board only: £9.925 million). This represents 1% of gross expenditure excluding Argyll and Bute IJB transactions

Since issuing our audit plan, we recognised an additional risk in relation to the impact of the Covid-19 pandemic on NHS Highland and the risk of material misstatement to the financial statements. Details on the identified risks, audit procedures undertaken and conclusions are detailed in the 'Responding to significant risk' section within this report.

We report to management any difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for Directors Remuneration disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £2,500).

## The audit process

We received the completed Scottish Government template set of financial statements in line with agreed timescales with the audit commencing on 11 May. However, due to the impact of Senior Management's focus on managing the Board's response to the COVID-19 pandemic, there were delays in receiving the Performance Report as well as narrative disclosures within the accounts. While delays were expected we anticipated receipt of these the week commencing 25 May. However, these were only received 5 June 2020.

Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely. This resulted in some delays to the audit process, particularly where additional audit procedures needed to be undertaken to validate the source of information provided to support the audit. In addition, there was an added challenge of accessing information and supporting records which were not held centrally by NHS Highland.

We identified two adjusted misstatements to the financial statements and these are detailed in Appendix 1. The final allocation letter from the Scottish Government was updated from the draft accounts. This increased the surplus against RRL from £344,000 to £411,000 but does not impact on the Statement of Comprehensive Net Expenditure.

We identified one unadjusted misstatement in relation to an audit extrapolated error within prepayments of £341,000. We also identified a number of disclosure adjustments in respect of the draft financial statements including disclosure of financial instruments. NHS Highland is required to disclose the fair value of financial assets and liabilities. However, the board does not have the information available to fully comply with these disclosure requirements. A full listing of adjusted and unadjusted misstatements is detailed in Appendix 1.



## Internal control environment

During the year we sought to understand NHS Highland's overall control environment (design) as related to the financial statements. In particular, we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not place reliance on the operation of controls, as our audit is fully substantive in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

### Service auditors report

NHS Highland utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements. During 2019/20 the service audit reports from KPMG on NSS Primary Care Payments and NSS' National IT contract for services provided by ATOS Origin Alliance supporting eFinancials were qualified. The BDO service auditor report over National Single Instance (NSI) eFinancials was unqualified.

Management have disclosed the qualification in the Annual Governance Statement but do not consider the control deficiencies identified to have had an impact on the accuracy of the financial statements.

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service auditor reports and any potential impact on our audit procedures, we do not place direct reliance on their work.

From considering the final the reports, and our audit methodology, we are satisfied that the qualified opinions do not impact on our planned audit work.

## Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's. We do not place formal reliance on the work of Scott-Moncrieff, NHS Highland's internal audit auditors. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. The opinion of Internal Audit for the year was:

*"In our opinion NHS Highland has an adequate and effective framework of governance, risk management and control, subject to the implementation of the following actions:*

- *Across 2019/20, specific improvement actions have been highlighted in relation to aspects of governance (including management oversight).*
- *Progress needs to continue in improving business continuity planning, aspects of service redesign, and issues linked to ongoing financial and organisational culture issues.*
- *Whilst acknowledging progress with follow up during 2019/20, there is a need for further improvement (particularly in relation to higher risk actions)."*

The findings of internal audit are consistent with our knowledge and experience of NHS Highland.

From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit of the financial statements and that appropriate disclosure is contained within the annual governance statement. We confirm that internal audit is independent and has sufficient capacity and capability in fulfilling its role and remit.



# Responding to significant risks

Risk area	Identified audit risks at planning
<b>Risk of fraud in revenue recognition</b>	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2018/19, NHS Highland's revenue resource allocation was £742 million. While material, we consider this funding to be well forecast and directly agreed to Scottish Government funding and draw down of cash. We therefore consider the opportunity and incentive to manipulate this revenue stream as low and rebut the presumed risk around revenue recognition over revenue resource allocation. Similarly, funding from services commissioned from the Integration Joint Board (IJB) of £202 million and revenue from other Scottish Boards of £30 million is relatively well forecast and agreed to funding letter / inter-Board funding agreements. This reduces the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition.</p> <p>Therefore we direct this significant risk to other material revenue stream: other revenue. Income from other revenue streams in the year was £141 million. As financial performance targets are set for year end outturn position, the risk is prominent around year end revenue transactions and balances. While the Board face significant pressures to meet financial performance targets in the current year, given the medium term financial outlook there is also a potential incentive to understate revenue to support future years' financial position</p>
<b>Work completed</b>	
<ul style="list-style-type: none"><li>• Walkthroughs of the controls and procedures over other income (non-RRL, IJB or other NHS Scotland income)</li><li>• Substantive testing (at an elevated risk level) income recognised pre and post year end to identify if there is any potential misstatement</li><li>• Substantive testing (at an elevated risk level) of income recognised in the final two months of the year to identify if this has been potentially overstated</li><li>• Review and sample testing of accrued income, prepayments and debtors to gain comfort around the recoverability of balances at the year end.</li></ul>	
<b>Our conclusion</b>	
<p>Based on our testing we conclude:</p> <ul style="list-style-type: none"><li>• We did not identify any exceptions in our cut-off testing of year end income.</li><li>• We did not identify any material misstatements arising from our testing of accrued income, prepayments and debtors at the year end or material concerns around the recoverability of balances.</li><li>• We identified one error in our sampling of prepayments where amounts had been recorded as a prepayment before physical payment had been made. We have extrapolated the error across the total population of prepayments and are satisfied the unadjusted difference is not material (see unadjusted errors Appendix 1).</li><li>• NHS Highland recognise income from groups of individuals who receive residential care services. The actual income is generally not recovered until the sale of the individuals' property which can be a number of years away. While management consider recoverability when estimating the level of income due there is no reflection of the time value of money. While not material to the accounts, we have raised a recommendation for management to review the level of accrued income to ensure the receivable balance reflects an accurate measurement of the current value of future cash received (Appendix 2).</li></ul>	

## Risk area

### Risk of fraud in Expenditure recognition

## Identified audit risks at planning

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Financial Reporting Council (FRC) Practice note 10 (revised) which applies to public sector entities. NHS expenditure includes payroll expenditure (2018/19: £385 million). As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. NHS Highland's non-pay expenditure includes: Independent primary care services; drugs and medical supplies; and, other health care expenditure. Other health care expenditure includes contributions to the Integrated Joint Board (IJB) (2018/19: 214 million). As these expenditure streams are agreed to third party confirmations at the year end, there is limited opportunity for manipulation of the expenditure and therefore not considered significant risk of misstatement. The only material other health care expenditure stream is other operating expenses (£463 million).

We therefore focus our risk on the following expenditure streams: Independent primary care service; drugs and medical supplies and other operating expenses. For this expenditure we consider there an inherent risk that this may be materially misstated through fraudulent recognition to deliver financial performance targets. Recognising the challenges in meeting financial targets for the current year, incentivising understatement of expenditure, we consider therefore consider the risk to be understatement of expenditure throughout the year. However, given financial pressures in future years, there may be an incentive to overstate expenditure (particularly around the year end).

## Work completed

- Walkthroughs of the controls and procedures over other operating expenditure streams
- Substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement
- Substantive testing (at an elevated risk level) of expenditure in the final two months of the year to identify if this has been potentially overstated
- Considered the regularity of expenditure incurred to ensure alignment with the type/nature of NHS Highland as an organisation.
- Review of accruals, deferred income and provisions, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

## Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of NHS Highland (regularity).

## Risk area

### Management override of controls

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement, as well as including manual journals.

## Work completed

- Considered the design of controls in place over key accounting estimates and judgements.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
  - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
  - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
  - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

## Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing
- NHS Highland's draft financial statements include the following areas of significant estimate and judgements: Provision for Pension and injury benefits; clinical and medical negligence costs; employee benefits accrual; leases and the pension liability for the Highland Council Pension Fund.
- Through our audit testing we have also considered accounting estimates over the valuation of property, plant and equipment.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of NHS Highland.

We have raised a disclosure adjustment in Appendix 1 in relation to the Board's disclosure around accounting estimates and judgements to ensure these are in accordance with IAS 1. Currently a number of the disclosures would not be considered significant estimates or judgements and are more reflective of accounting policy choice.

## Risk area

### Valuation of property, plant and equipment

## Identified audit risks at planning

In accordance with the NHS Accounting Manual and the FReM, subsequent to initial recognition, the Board is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS Land, Buildings, equipment, installations and fittings are held at depreciated replacement cost, as a proxy for current value. Non-specialised land and buildings, such as offices, are held at market value. There are further modifications to values depending on the nature and use of assets to ensure PPE is appropriately stated. As at 31 March 2019, NHS Highland held PPE of £354 million, including Land and buildings of £312 million. Given the value of PPE held by the Board and the level of complexity and judgement in the estimation of valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic cost, as a proxy of current value and therefore less likely to be materially misstated. NHS Highland appoint Barr (Argyll & Bute) and Burnetts (North Highland) to undertake a rolling programme of valuations across the assets base, valuing land and buildings a minimum of once every five years.

## Work completed

- Walkthrough of the controls and procedures over the valuation of land and buildings
- Documented our understanding of the arrangements in place at the Board for ensuring the carrying value of land and buildings remains appropriate and in accordance with IAS 16
- Reviewed the underlying assumptions continued within the valuation of land and buildings and the reasonableness of these including the suitability of any indices used in the valuation.
- Reviewed the processes in place to support the valuers assessment of potential impairment of PPE and considering if there are any indications of impairment of PPE not recognised by the Board.
- Reviewed the underlying data supporting the valuation to ensure these are consistent with the Board's underlying records and that the valuation as at 31 March 2020 reflects a suitable estimate of the condition and value of land and buildings held.
- Using our auditor valuations expert, challenged the valuer and NHS Highland management around the valuation instructions and approach adopted in valuing land and buildings as at 31 March 2020.

## Our conclusion

Based on our testing we conclude:

- Property, plant and equipment has been valued in accordance with IFRS 16 and the FReM.
- The assumptions adopted by Management and the valuers are reasonable and we have not identified any issues with the completeness or accuracy of the underlying data used in the valuation.
- We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements.

The Royal Institute of Chartered Surveyors (RICS) have issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted. Due to the impact of Covid-19 on markets, including reduced level of data points to support valuations, NHS Highland's valuers have reported their valuation advice on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global Standards. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation advice than would normally be the case. NHS Highland have updated the accounts to disclose the material uncertainty within note 1 (Accounting policies). We have included an emphasis of matter paragraph within our independent audit report to highlight the matter to the reader of the accounts. Our audit opinion is not modified in respect of this matter.

## Risk area

### Covid-19

## Identified audit risks at planning

The global outbreak of the Covid-19 pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We anticipated current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant audit risk.

## Work completed



- Worked with management to understand the implications the response to the Covid-19 pandemic has had on the Board's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

## Our conclusion




Based on our testing we conclude:



- Covid-19 and remote working did not restrict NHS Highland's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Management's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on NHS Highland's debtor recovery, although acknowledge that the majority of these are with other public bodies
- The impact of COVID-19 has resulted in a material uncertainty surrounding the valuation of property, plant and equipment (see Valuation of Property, plant and equipment significant risk)
- Management have adequately assessed disclosed the impact of Covid-19 on the Board's governance arrangements, particularly the arrangements in place beyond mid March 2020.

# Accounting Policies




Accounting area	Summary of policy	Comments	Assessment
<b>Accounting policies</b>	Application of IFRS and deferral of IFRS 16: Leases	NHS Highland's Accounting policies are in accordance with IFRS as interpreted and adapted by the 2019/20 NHS Accounts Manual (where relevant to the health board) and we consider these to be appropriate. These have been applied consistently compared to prior year. No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic.	 Green
<b>Revenue recognition</b>	Revenue and funding recognition	<p>The majority of NHS Highland's expenditure is met through funds advanced by the Scottish Government within an approved revenue resource limit (RRL). Cash draw downs to fund expenditure within RRL are not recognised as revenue and instead credited to the General Fund. All other income receivable by the Board is recognised as income in year.</p> <p>For 2019/20 revenue resource funding was £786 million and funding from the Argyll and Bute Integration Joint Board was £211 million. The Board also receives income from other Scottish health boards' for goods and services provided in year. For 2019/20 this totalled £32 million. The Board also recognises income from other revenue streams predominantly in the provisions of services and for 2019/20 this totalled £141 million. While the Board's accounting policy follows the NHS Scotland Accounting Manual, there is an opportunity to enhance the accounting policy as to more explicitly reflect on when income is recognised within the financial statements.</p>	 Amber

## Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	Pension provisions and injury benefit	NHS Highland provides for future estimated payments in relation to permanent injury benefit awards to former employees as well as amounts relating to former employees who retired early in the interests of the service. The total amount provided at 31 March 2020 was £10.101 million. We are satisfied that the provision has been appropriately calculated in accordance with the NHS Accounts Manual and has been independently agreed to supporting information from the Scottish Public Pension Agency and HM Treasury which we have reviewed as an appropriate source of management evidence.	
	Clinical and Medical Legal Claims and CNORIS provisions	<p>NHS Highland provides for Clinical and medical legal claims against the board. NHS Highland participates in the Clinical Negligence and Other Risk Indemnity Scheme (CNORIS). Under CNORIS, NHS Highland meets the costs of claims up to £25,000. Any amount above this is covered through a pooled CNORIS share made up from contributions from all health boards. NHS Highland contribute annually to the CNORIS scheme. Audit Scotland have provided an independent assessment of the suitability of the CLO and a review of the Scottish Government methodology to calculate CNORIS provisions. We have reviewed clinical and medical legal claims and CNORIS provisions and have confirmed that the amounts recognised are in accordance with advice received from the CLO in relation to claims outstanding against the Board.</p> <p>NHS Highland's draft financial statements also disclosed key sources of judgement and estimation around employee benefits accrual and assessment of leases. Under International Accounting Standard 1: Presentation of Financial Statements (IAS 1) there should be separate disclosures from material estimation. In addition, we found that the disclosed amounts did not always meet the definition of a significant estimate or judgement or disclosure requirements. We have raised an unadjusted disclosure difference within Appendix 1.</p>	 Amber
<b>Property, plant and equipment</b>	Material estimation uncertainty	<p>Due to the impact of Covid-19 on markets, including reduced level of data points to support valuations, the Board's appointed valuers have included a material valuation uncertainty disclosure in their valuations provided as at 31 March 2020. Consequently, NHS Highland financial statements include the disclosure of a material estimation uncertainty in relation to the valuation of property, plant and equipment. Therefore, less certainty, is attached to the valuation.</p> <p>The Board's disclosures do not include a sensitivity analysis of the estimation. However, we are satisfied that this does not have a material impact to the reader of the accounts.</p>	 Amber

#### Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient



## Defined benefit pension schemes

As part of the terms and conditions of employment for the staff transferred from Highland Council, NHS Highland participates in the Local Government Pension Scheme administered by the Council. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. NHS Highland recognise the cost of these retirement benefits in the Statement of Comprehensive Net Expenditure (SoCNE) when they are earned by these employees, rather than when the benefits are paid as pensions. Highland Council recognise the liability at 1 April 2012 attributable to these NHS Highland staff in the Highland Council accounts. Any gain or shortfall in the value of the fund attributable to NHS Highland staff in year is charged to the SoCNE. The pension liabilities are subject to an annual actuarial IAS 19 valuation to arrive at the value of scheme assets and liabilities. The arrangement is funded by Scottish Government and therefore both the impact of the IAS 19 valuation on service costs and actuarial remeasurements are funded through Annually Managed Expenditure funding in year. NHS Highland's net asset of £6.68 million (2018/19: net liability: £3.111 million) reflects the cumulative impact of actuarial remeasurements since 2012.

## Going concern

NHS Highland has an agreed budget for 2020/21 and financial forecasts for 2021/22 and 2022/23. The Board has received a resource allocation letter for 2020/21, however final confirmation of allocations will not be received until later in the financial year.

NHS Highland is at level 4 in the Scottish Government escalation framework. In 2019/20, £11million of brokerage was required to achieve the statutory targets. For 2020/21 NHS Highland has identified a recurrent gap of £39.5 million, with an estimated savings delivery within the Annual Operational Plan (AOP) of £28.1 million. For 2020/21, the AOP highlights that there will be a gap and brokerage will be required from the Scottish Government to fund the gap and support a break-even financial position.

In concluding on the going concern basis, we have assumed that Scottish Government will continue to provide revenue and capital resource allocations to NHS Highland. NHS Highland maintains net assets position of £262 million and sufficient cash flows to meet its obligations as they fall due.

## Fraud and irregularity

In relation to the audit risk of fraud in respect of expenditure and income we tested NHS Highland's cut-off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud. There are no post balance sheet events or legal uncertainties at year-end. NHS Highland participates in the NFI matching process. Overall we found that the Board is well engaged with the NFI process and demonstrates commitment to investigate high risk matches and other risk matches.

## Contingent Liability – The Sturrock Report Healing process

The Sturrock Report was published in May 2019 and made a series of recommendations for NHS Highland to consider and implement to address the cultural issues related to bullying and harassment identified in the report. In response to the report, the Board is establishing a process (the Healing Process) in which an independent review panel will be established to consider the best outcome, following a framework of four agreed options and steps for consideration. At this stage the process is only being established and therefore no payments due. However, in the future NHS Highland may need to make payments to participants in the healing process or incur possible costs in the provision of support services.

# Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the annual report and accounts. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

## Performance Report

Provides a summary of key performance activity across the year

The report summarises the key priorities, achievements and developments during the year

NHS Highland performance report highlights activities undertaken by the Board to deliver the strategic priorities

## Overall Observations

NHS Highland recognises the importance that the annual report and accounts have in communicating the Board's performance during the year. The "front end" of the Annual Report and Accounts, tells the story of the Board as an organisation including strategic priorities, risks and achievements made during the year.

A number of amendments were required to the "front end" of the accounts, particularly around structure and layout of the reports to adhere to the requirements of the FReM. We conclude that the information contained within the report is consistent with the financial statements

Annual Report and Accounts include the performance report and accountability report (including remuneration and governance)

## Remuneration and staff report

The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder

The disclosures in the Remuneration and Staff report are consistent with underlying payroll records. An adjustment was required to the draft financial statements to reflect pension CETV calculations for all directors (see Appendix 1)

## Governance statement

The governance statement is included within the Accountability Report. The report outlines the governance framework in place at NHS Highland.

The Report includes the Statement of the Accountable Officer's responsibilities and those of the Board of NHS Highland. A number of disclosure adjustments were recommended by audit to the draft governance statement to more accurately reflect the governance arrangements in place during 2019/20 (Appendix 1)

# Financial management

Within our annual audit plan we identified two significant wider scope risks in relation to financial management: risk around financial and operational pressures including recruitment and vacancy management, and the arrangements in place for establishing a project management office (PMO) to support financial management arrangements. We have reviewed NHS Highland's financial management arrangements including the extent to which there is effective scrutiny over financial performance.

## Headlines



NHS Highland met its key financial targets for 2019/20 achieving a £0.412 million surplus against their revenue resource limit of £786.537 million. This was delivered through the planned receipt of brokerage funding from the Scottish Government of £11 million.

NHS Highland made substantial progress in establishing and embedding the PMO and Financial Recovery Board during the year. The PMO has played an essential role in helping deliver the Board's Financial Recovery Programme, including the delivery of financial savings of £28 million in 2019/20.



NHS Highland continue to have considerable reliance on agency and locum staff to support service delivery. The locum spend has adversely impacted on medical pay budgets over the last 3 years where there has been a consistent overspend. NHS Highland should continue to look to address the reliance on locum and agency staff in order to achieve long term financial sustainability. This could be supported by the Attraction, Recruitment & Retention Strategy currently under development which intends to build a resilient workforce with the right skills in the right locations.

## Wider Scope Significant Risk: Financial Management– Financial and operational pressures

**Risk identified in our 2019/20 Annual Audit Plan:** *NHS Highland faces significant financial pressures in meeting its financial reporting targets and is at level 4 on the Scottish Government's ladder of escalation with heightened risk around financial management and sustainability. During 2018/19, through vacancy management and recruitment challenges, NHS Highland reported an underspend on payroll costs against budget of £4.5 million. With challenges in recruitment of key clinical posts in both primary and secondary care, NHS Highland relied upon medical locum services with expenditure totalling £15.6 million in 2018/19. A key focus for NHS Highland is reducing the pressures on vacancy management, ensuring that NHS Highland has the appropriate workforce in order to ensure the provision of safe clinical care.*

### Audit response to significant wider scope risk

In evaluating NHS Highland's financial management's arrangements and financial performance in the year we considered the Board's arrangements for assessing workforce capacity and capability and the extent to which staff costs, including secondment costs are controlled. We assessed the work done by NHS Highland in addressing recruitment challenges in key staffing cohorts and how financial planning and management arrangements are built upon a sustainable workforce model to prevent the Board becoming overly reliant on vacancy management to meet financial targets. In particular, we reviewed the progress made by NHS Highland in the recruitment of a Director of Finance and the Board's medium term plans around its financial management operating model.

## Wider Scope Significant Risk: Financial Management– Financial and operational pressures (continued)

### Findings

#### Financial performance 2019/20

During 2019/20, NHS Highland met its key financial targets, resulting in a £0.412 million surplus against their total revenue resource limit of £786.604 million.

The 2019/20 Capital programme also achieved a breakeven position. Schemes in the year include the ongoing critical care upgrade in Raigmore, the Badenoch, Skye & Wester Ross project, the start of the elective care centre and rolling programmes for Estates, medical equipment, eHealth and radiology.

The brokerage required in 2019/20 of £11 million (£11.4 million was budgeted) shows a reduction on previous years where £18 million was received in 2018/19 and £15 million in 2017/18. Whilst this signifies the beginning of a downward trend, as forecast in the Annual Operational Plan (2020 – 2023), the requirement for brokerage carries on into 2020/21 highlighting that the underlying operating model is not yet financially sustainable.

#### Key financial pressures

NHS Highland continues to experience pressures in relation to Raigmore Hospital. In 2019/20, there was a £2.4 million overspend compared to budget. This was linked to locum and agency costs, increased prescribing along with clinical supplies, short stay ward and medical rota gaps. This was consistent with 2018/19 in which there was an overspend of £2.2 million. There is an opportunity for the Board to exercise greater control over this persistent overspend. NHS Highland should consider the shift from acute services to increased community care adopted in response to COVID-19 and look to incorporate this approach into the Clinical and Care Strategy currently under development. Through greater investment in the community, this could help to alleviate the demand for services in an acute setting and subsequently the cost pressures faced by Raigmore.

Pay costs continue to present a major pressure within NHS Highland. This is demonstrated in a year-on-year increase in relation to locum and supplementary staffing spend (see opposite table).

Whilst the overspend in 2019/20 of £5.6 million has been offset by underspend from other staff groups (e.g. admin & clerical, nursing & midwifery, and social care), NHS Highland should look to address the reliance on locum and agency staff in order to achieve long term financial sustainability. This could be supported by the Attraction, Recruitment & Retention Strategy currently under development which intends to build a resilient workforce with the right skills in the right locations.

**See Action Point 2 in 2019/20 audit recommendations – Financial sustainability and workforce.**

#### Recruitment of Finance Director

During 2019/20, the interim Director of Finance was appointed permanently to the Director of Finance position. The appointment supports stability in NHS Highland's financial management arrangements.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/under £'000
Revenue resource limit – core	751,766	751,355	411
Revenue resource limit – non-core	34,838	34,837	1
<b>Total</b>	<b>786,604</b>	<b>786,192</b>	<b>412</b>

	2017/18 £ million	2018/19 £ million	2019/20 £ million
Locum spend	14.9	15.6	18.4
Supplementary staff spend	20.0	20.3	24.6
Medical pay overspend	3.6	3.8	5.6

## Wider Scope Significant Risk: Financial Management– Transformational delivery and Project Management Office (PMO)

**Risk identified in our 2019/20 Annual Audit Plan:** *During 2019/20, the Scottish Government provided additional strategic support to NHS Highland, including the establishment of a Transformation Team and a Programme Management Office (PMO), alongside financial recovery expertise. PricewaterhouseCoopers UK LLP (PwC) provided advice and support around the delivery of savings and development of the PMO over a contracted period. While NHS Highland have reported good progress in the delivery of transformational savings in the year, over the longer term there is a significant risk that NHS Highland will not have the skills, capacity or capability to progress and realise the savings plans developed by PwC and Scottish Government Transformational Teams or fully utilise the PMO framework established.*

### Audit response to significant wider scope risk

We assessed the arrangements established by NHS Highland to ensure the Board has the skills, capability and capacity to support the delivery of the transformation programme both in 2019/20 and beyond. This included the extent to which the PMO framework established by PwC has been fully implemented and how NHS Highland assures itself that it has the resources and capability to deliver transformation.

### Findings

At the outset of 2019/20, NHS Highland had a budget gap of £39 million and the Annual Operational Plan set out a savings target of £28 million to be delivered in the year. In addition to this target was the need to mitigate new and emerging cost pressures of potentially £7.7 million. NHS Highland has made a concerted effort to deliver a stepped improvement in the organisation's financial position and has delivered against this challenging savings plan to achieve financial balance.

Contributing to the achievement of cost savings targets was the establishment of a Programme Management Office (PMO) and the Financial Recovery Board. These have driven sustained efforts from all areas over the course of the year resulting in the full achievement of savings targets, the management of in year pressures and the delivery of the improved outturn of £0.7 million below the original target.

### Findings (continued)

The role of PricewaterhouseCoopers (PwC) in supporting PMO operations in the first half of the year is acknowledged within NHS Highland. During their six-month appointment, PwC worked with NHS Highland in the development and delivery of the organisation's financial recovery programme. PwC supported NHS Highland to develop a workstream structure, with senior leadership owning targets for each workstream to support the organisation to deliver its savings targets in 2019/20 and beyond. NHS Highland recognised the risks to financial recovery associated with the departure of PwC in September 2019, predominately the risk of non-delivery and slippage in some schemes as well as the loss of capacity and capability. However, it is clear from achievement of the savings targets for 2019/20 and the momentum in the second half of the year to progress the savings that NHS Highland have a continued focus on maintaining a cost effective service delivery model.

This positive outlook on PMO has resonated across the organisation as reflected in the redeployment of project managers to support with managing governance and risks associated with the COVID-19 mobilisation. This resulted in the cost improvement programme being put on hold from mid-March, but we note that this has since recommenced as of the first week in May 2020. This reflects the importance of the programme within NHS Highland and the concerted efforts to resume pace and progress in delivering the 2020/21 savings target of £27.5 million.

However, it is acknowledged that this pause to the programme has placed greater risk on the achievement of savings target with less time to deliver in year savings by 31 March 2021. Of the total £27.5 million target savings, £24.1 million is expected to be achieved through the PMO and its workstreams, with the £3.4 million balance delivered through non recurrent efficiencies. The PMO Director's contract has been extended until end of March 2021. This will allow the financial recovery programme to benefit from a prolonged period of stability, which is particularly crucial following the effects of COVID-19 on financial turnaround.

# Financial sustainability

Within our annual audit plan we identified two significant wider scope risks in relation to financial sustainability: the risk around failure to deliver a financially sustainable operating model and the risk that NHS Highland's financial controls and "grip and control" measures to deliver financial targets have an adverse impact on service delivery or the ability and capacity of NHS Highland to deliver medium to longer term strategic plans. We consider both of these below. We will also consider the broader financial sustainability arrangements in place at NHS Highland.

## Headlines



NHS Highland face significant financial challenges to deliver the level of savings required to return to a financially sustainable operating model. NHS Highland's Annual Operational Plan (AOP) (2020-2023) outlines savings totalling £80.7million over the next three years. NHS Highland also forecast that it will require brokerage funding of £8.8 million in 2020/21 in order to achieve financial balance.

A key element to NHS Highland's medium to longer term financial sustainability is the financial agreement in place under the Lead Agency Model. While progress was made during 2019/20 in revisiting the Lead Agency partnership arrangement, the impact of COVID-19 has led to delays in these negotiations. There is a need to agree the future financial arrangements underpinning this model to support NHS Highland in its ongoing budgeting and service redesign.



## Wider Scope Significant Risk: Financial Sustainability– Financial sustainable operating model & financial control arrangements

**Risk identified in our 2019/20 Annual Audit Plan:** *NHS Highland's underlying operating model is currently not financially sustainable without significant changes to service delivery and potentially provision. This is recognised by the leadership team and the Board. During 2019/20, NHS Highland implemented a Transformation Programme, aimed at delivering a financially sustainable operating model while ensuring focus on patient outcomes and the delivery of quality of care in the region. To support this, NHS Highland established a Transformation team and have received Financial turnaround expertise support from the Scottish Government.*

*In addition, alongside the transformation activity, during 2018/19 NHS Highland rolled out a programme of "grip and control" aimed at ensuring better control of expenditure and budget management. This has continued during 2019/20. While we recognise that cost management is critical within NHS Highland, it is important that cost control measures are aligned to the strategic priorities of NHS Highland, including patient outcomes. There is a risk that in order to deliver in year financial targets, cost control measures have an adverse impact on service delivery or the ability and capacity of NHS Highland to deliver medium to longer term strategic plans.*



### Audit response to significant wider scope risk

We reviewed the progress made by NHS Highland in delivering the Transformation Programme and the extent to which NHS Highland has developed the underlying operating model to provide a financially sustainable model of care. We reviewed the extent to which savings delivered during 2019/20 represent sustainable recurring savings and that changes to the underlying operating model have embedded within the organisation including the extent to which transformation programme is being delivered. We considered how NHS Highland have evaluated the potential impact on service delivery of proposed savings plans both in the short and medium term.

We reviewed the cost control measures established by NHS Highland during the year and how decisions taken are aligned both to the NHS Highland Annual Operating Plan as well as the wider transformation programme, to ensure that cost control measures, including vacancy management, do not adversely impact the deliver of these.

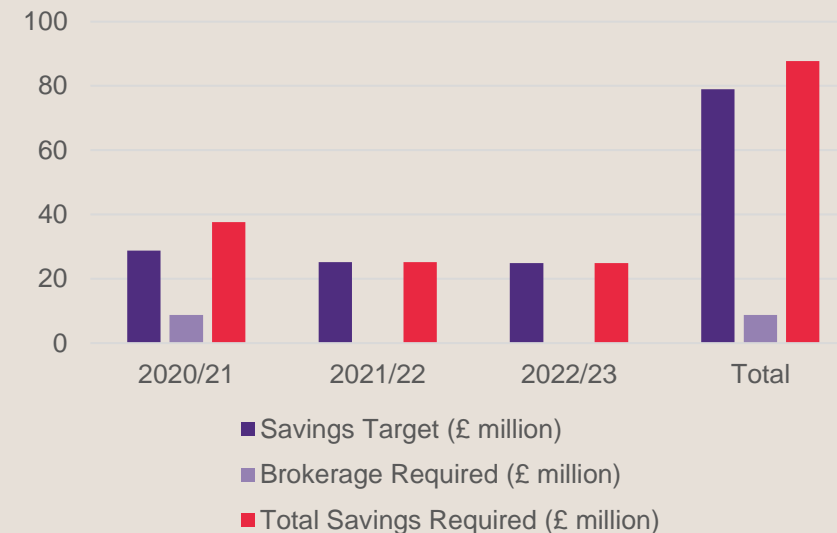
### Findings

Bringing NHS Highland back into balance is predicated on a significant amount of savings required in the coming years. NHS Highland’s Annual Operational Plan (AOP) (2020-2023) outlines savings totalling £80.7 million over the next three years as highlighted in the chart opposite.

The savings of £28 million achieved in 2019/20 included £15.7 million of savings delivered on a recurring basis. This is largely in line with last year which saw recurring savings of £17.1 million and in increase on 2017/18 where only £10 million of savings were recurring. NHS Highland recognises that the delivery of cost improvements continues to become increasingly difficult each year. There is therefore reliance within the plan on the Clinical and Care Strategy to generate financial benefits in years 2 and 3 to allow the Board to return to financial balance.

There are a number of financial assumptions included within the financial plan. One of the key assumptions is that there is a positive resolution to the historic funding gap of £9.5 million with the Highland Council in relation to the financial model underpinning the lead agency model, however discussions with the Council and the Scottish Government are still ongoing to agree a suitable outcome. There is a risk that failure to agree an suitable financial model could significantly impact the financial projections for the year if an unfavourable outcome for NHS Highland is reached. An uplift of £4.2 million in respect of Adult Social Care funding is also assumed to increase in 2020/21, and the increase of baseline funding of 3% has since been verified by the Scottish Government.

AOP Financial Projections



### *Highland Council Lead Agency Model*

Since 1 April 2012, health and social care in the Highland region has been formally integrated through the lead agency model. NHS Highland is the lead agent for the delivery of adult services across health and social care and the Highland Council is the lead agency for children's services. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP). NHS Highland has previously highlighted the unsustainable financial position of the current financial arrangement underpinning the model of social care where there exists a sizeable discrepancy in the funds NHS Highland receives from the Highland Council and the costs that NHS Highland incurs in delivering the Council's Adult Social Care functions. The Integration Scheme and Partnership Agreement is due for renewal at the end of June 2020 and discussions have taken place to agree how the financial gap of £9.5 million will be funded and an appropriate level of funding for Adult Social Care going forward. This is ongoing and the outcome will ultimately impact on the 2020/21 financial outturn.

*Action plan point - 3*

### *Impact of COVID 19*

The financial implications resulting from COVID-19 and the level of funding from the Government that will be available to NHS Highland remains unknown. The AOP and the financial projections do not yet include the impact of COVID-19 and the financial effects are currently being monitored and managed in isolation of the financial plan, NHS Highland has been working closely with the Scottish Government and a weekly COVID-19 finance reporting update has been introduced. This outlines the projected additional COVID-19 related costs which are reviewed and updated on a weekly basis. Whilst NHS Highland will look to ensure that all COVID-19 related costs are funded, additional un-forecasted cost pressures could put the 3-year financial plan at risk. This, in conjunction to the risk to the delivery of the financial recovery programme, could result in revised timescales to NHS Highland's ability to deliver financial balance without the need for brokerage.

## Argyll & Bute Integrated Joint Board (IJB)

In 2016, Argyll and Bute Council and NHS Highland formed the Health and Social Care Partnership (HSCP) and a Scheme of Integration was agreed to determine which health and social care functions and services are delivered by the HSCP. In November 2019, the Board agreed revisions to the Integration Scheme for Argyll and Bute and undertook a joint public consultation exercise. As a result of the consultation process, additional revisions to the Integration Scheme were made and approved by the Board in March 2020 for onward submission to the Scottish Government for their consideration.

The Argyll and Bute HSCP has been unable in 2018/19 and 2019/20 to operate within the financial contributions from Argyll and Bute Council and NHS Highland. In a paper to the March 2020 Board, it was highlighted that unless there is a greatly increased financial contribution from both partners who delegate services to HSCP, the HSCP will have to plan for and then deliver very substantial cuts in expenditure in order to be able to make its budget submission to Scottish Government for 2020/21. The NHS Highland Director of Finance has been working with Argyll & Bute IJB's Chief Finance Officer to agree an appropriate budget and an offer in principle has been made by NHS Highland, subject to Board approval in May 2020. This does not include additional national funding in respect of COVID-19 mobilisation plans which is still currently unknown.

In addition there is an ongoing financial dispute between Argyll & Bute IJB and NHS Greater Glasgow & Clyde (GG&C) which is yet to be resolved. This relates to acute services which after delegation from NHS Highland to the Argyll & Bute HSCP within the Integration Scheme, have been further delegated for delivery by NHS GG&C. NHS GG&C have increased the price of service provision and Argyll & Bute HSCP are facing demand for payment for 2018/19 and 2019/20 which was not budgeted for. As a consequence NHS Highland may ultimately need to fund additional costs in contributions to the IJB in future years

# Governance and Transparency

Within our audit plan we identified two wider scope risks relating to NHS Highland's governance arrangements. These were in relation to the Board's response to John Sturrock QC's review: Bullying and Harassment in NHS Highland (the Sturrock Report) and the risk around the number of interim appointments in place within NHS Highland across senior management. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the organisation's governance and transparency arrangements, including these identified areas of risk.

## Headlines



NHS Highland have been implementing a range of actions aimed at addressing the shortcomings identified in the Sturrock report. Overall, whilst progress has been made against the Culture Fit for Future action plan in the year, this is a long-term programme with considerable work still to take place. NHS Highland have demonstrated a coordinated approach through the initial planning work moving through to longer-term initiatives to drive and embed the desired culture change.

During 2019/20 NHS Highland made a number of new appointments to senior management positions with knowledge and experience that will benefit NHS Highland. However, changes to the composition of the senior management team will continue at least for the short term with departures of interim staff and these positions to fill within 2020/21. NHS Highland would benefit greatly from a period of sustained stability in its leadership to ensure continuity in its leadership and service delivery.



The Scottish Government issued guidance on workforce planning immediately prior to the widespread disruption of COVID-19, however due to the effects of the pandemic, some of the longer-term workforce planning activity within NHS Highland has been placed on hold. NHS Highland aim to develop their workforce strategy to support remobilisation and services resuming over the next 12-18 months. It is important that the strategy is built to reflect any changes to services and embrace improved structures and ways of working that have been identified while responding to the pandemic.

## Wider Scope Significant Risk: Governance and Transparency – The Sturrock Report

**Risk identified in our 2019/20 Annual Audit Plan:** *In response to the John Sturrock QC review: Bullying and Harassment in NHS Highland (the Sturrock Report), that found that bullying or inappropriate behaviour has occurred within NHS Highland, the board have been implementing a range of actions aimed at addressing the shortcomings identified in the report. This includes being able to hold senior executives to account and reviewing its structures, committee network and culture. Allied to this the board has reviewed its management structure to ensure this remains fit for purpose.*

### Audit response to significant wider scope risk

We have considered the progress made by NHS Highland in implementing the actions identified to address the shortcomings raised in the Sturrock Report. We assessed the extent to which these arrangements have embedded across the organisation and how the Board satisfies itself that these issues have been addressed. This included the extent to which the Board has established clear and transparent arrangements to support both existing or historic cases of bullying or harassment to be appropriately considered, and where required, addressed by the Board. In addition, we considered how the Board satisfies itself that it has appropriate skills and capability across the Board and that there are suitable Board recruitment and training arrangements in place to support the Board's development.

### Findings

NHS Highland formed the initial “Culture Fit for the Future” plan in response to the recommendations of the review which was submitted and approved by the Cabinet Secretary. The action plan sets out 5 key focus areas: Communications and Engagement, HR Processes, Organisation and Workforce Development, Support for Staff, and Governance. Initially this was overseen by a group of senior leaders and internal colleagues as part of the Delivery Group. This has since been replaced by an expanded Culture Programme Board in November 2019 chaired by an External Culture Advisor.

Two of the critical actions within the Sturrock review recommendations are the completion of a culture survey in Argyll & Bute and the development and approval of a healing process to support current and former colleagues. Both of these actions have been progressed. The survey within Argyll & Bute sought to understand the experience of bullying and harassment of NHS Highland colleagues within the Argyll & Bute Health and Social Care Partnership (HSCP). This review has concluded, and initial findings submitted to the Board. The results highlight that a significant number of NHS Highland colleagues have reported experience of bullying, many occurring within the last year. The main themes from the survey were in line with the findings from the Sturrock Report and form part of the ongoing programme and action plan to transform the culture.

### *Next steps and resolution*

The Healing Process was co-produced with members of the whistle-blowing group and staff-side and approved by the Board in March 2020. This aims to help both current and former employees deal with past experiences and gain resolution and support in a fair and non-judgemental setting. A crucial element of the Healing Process is that it is provided by external service providers and independent panel members. The process will offer four potential outcomes: being heard, an apology, access to psychological therapies, and access to an Independent Review Panel. It was noted that the Chief Executive has secured funding from the Scottish Government to allow progression of the Healing process at pace. However, at the time of Board approval, the impact of COVID-19 on NHS Highland was beginning to emerge and consequently, the launch of the Healing Process was postponed. NHS Highland recognise the need for urgent action and given the restrictions in place relating to COVID-19, are planning to deliver the Healing Process virtually. In May 2020 the Board approved to launch the Healing Process with immediate effect to allow applications to commence. NHS Highland expect to see significant interest in the offering and associated applications for claims relating to mistreatment. It is understood that Scottish Government will cover any potential compensation payments, but the funding that will be required is unknown at this early stage in the process.

## Wider Scope Significant Risk: Governance and Transparency – Leadership and management

**Risk identified in our 2019/20 Annual Audit Plan:** *NHS Highland is going through a period of significant transformation. Over the last 18 months, there have been changes in the senior management team, including a new Chief Executive as well as the appointment of an interim Chair of the Board. In addition, to support the Board address the financial challenges faced, the Scottish Government has provided specialist support to the Board, including the appointment of an interim Deputy Chief Executive. As the board looks to continue to deliver a significant savings programme, it is critical that there is effective oversight, scrutiny and accountability of these arrangements to ensure effective governance within the organisation. NHS Highland has made a number of interim appointments, as well as members of the senior management team who have no formal contractual arrangement with NHS Highland, there is a risk that there will not be stable leadership in place, with clear accountability to make the difficult decisions NHS Highland will face in the coming years.*

### Audit response to significant wider scope risk

We reviewed the governance arrangements established by NHS Highland to ensure appropriate board oversight and scrutiny of transformation activity being undertaken across NHS Highland. We considered the extent to which clear lines of accountability and transparency in decision making are in place across the board, ensuring NHS Highland can demonstrate clear ownership of transformation and turnaround activity being undertaken by external appointments.

### Findings

#### Leadership

The Senior Leadership Team has undergone significant change during 2019/20 with several departures. Permanent appointments include the Director of Finance in January 2020, the HR Director in July 2019, and the Board Chair in December 2019 (previously serving as interim Chair from March 2019). However, NHS Highland continue to operate with several senior roles in the organisation being filled on an interim basis. This includes the Chief Executive appointed in January 2020 and Deputy Chief Executive in April 2020 who have both joined NHS Highland on a 12-month secondment, an Interim Director of Public Health in March 2020, and the PMO Director. NHS Highland are also currently recruiting for a new Director of Estates and plan to replace the Director of Communications with a Head of Communications which is considered more appropriate for the size and nature of NHS Highland.

Whilst the new appointments have considerable knowledge and experience that will benefit NHS Highland, it appears that changes to the composition of the senior management team will continue at least for the short term with departures of interim staff and these positions to fill within 2020/21. The Board recognises that a principal task between now and the end of 2020 when the Chief Executive is scheduled to leave is to have recruited a replacement and support the transition period prior to his departure. With such significant personnel changes, NHS Highland must ensure there are clear lines of accountability and responsibility defined and understood within the organisation.

*Action plan point - 4*

#### Governance

In addition to changes in personnel, there have been changes to the governance structure in the year. This includes the disbanding of a number of management groups and the Finance Committee extending its remit to become the Finance and Performance Committee. These changes to the governance structure, due to take effect in July 2020, should bring greater clarity to the different roles of management decision making and assurance committees. In addition, these changes bring NHS Highland more in alignment with the governance structures operating in the other NHS Scotland Board's.

### *Governance (continued)*

At the Board Development workshop in February 2020, the Board had embarked on reaffirming its Values, Vision and Objectives for 2020/21. These key elements establish the overarching strategic context for the Board and outline the high level aims for the organisation in the coming year. At the March 2020 Board meeting, it was highlighted that COVID-19 might result in a different way of thinking about these elements and that postponing this activity might allow for any future schools of thought to be incorporated. The Board therefore agreed to defer approval of the Board Vision, Values and Objectives until after the pandemic, but with the Chief Executive continuing to work on its development with the Executive team and Governance Committee Chairs.

### *Governance arrangements during COVID-19 pandemic*

In March 2020, proposals for temporary revisions to Board governance were considered to enable the organisation to respond appropriately to COVID-19. The Board agreed to delegate governance of NHS Highland for an initial period of three months to the Board Chair, Vice Chair and Chief Executive, with another Non-Executive Director and Deputy Chief Executive acting as substitutes. It was agreed that monthly Board meetings would proceed but with a focus on COVID-19 and any related nationally important matters or governance matters brought forward from the Chairs' Group. Other meetings to proceed are the fortnightly meetings of the Board and Committee Chairs Group with the Chief Executive, weekly meetings of the Chair, Vice Chair, CEO and Deputy CEO, and continued weekly meetings of Chair and Chief Executive as per normal practice. The new temporary governance arrangements also proposed the suspension of all Committee meetings. Internal Audit completed a risk assessment of the temporary changes to governance arrangements to provide assurance to the Board that it would continue to comply with minimum standards of the UK Corporate Governance Code and the Scottish Public Finance Manual. Following this assessment, the temporary arrangements were upheld but with a recommendation that the Board permit the Audit and Remuneration Committees to meet at the discretion of their respective Chairs.

In response to the pandemic, a Mobilisation Plan was submitted to Scottish Government in March and resubmitted in April 2020. The plan is the result of a multi-agency approach across the Health Board, Argyll & Bute and The Highland Council local authorities and related Partnerships, Police Scotland, Scottish Ambulance Service and Scottish Fire and Rescue Service to agree plans and priority actions in relation to COVID-19. The mobilisation plan will continue to evolve in line with the developing situation to determine the most effective response to the pandemic. The current phase of mobilisation has required NHS Highland to determine local clinical priorities and establish what capacity there is to safely and incrementally restore services which have been paused due to COVID-19, whilst continuing to respond to the pandemic in line with national guidance/policy frameworks.



## Blueprint for Good Governance

Following an external governance review in May 2018, NHS Highland developed an action plan which included the five functions of NHS Scotland's Blueprint for Good Governance; Setting Direction, Assessing Risk, Engaging Stakeholders, Influencing Culture; Roles, Responsibilities and Accountabilities, and in addition, Skills Experience and Diversity. The action plan was subsequently refreshed in April 2019 following a Board workshop and self-assessment survey issued by NHS Scotland. NHS Highland continues to monitor its progress against the Blueprint for Good Governance action plan and provides updates to the Audit Committee. As at April 2020, 8 of the 14 actions had been fully completed. Of the 6 remaining outstanding actions, 1 had been partially completed with progress deferred until post-Covid, 4 were in development and 1 not yet completed. It is important that there is momentum applied to progress these outstanding actions to ensure the governance framework in place is effective, transparent, and applied consistently throughout the organisation in line with the Blueprint for Good Governance.

## Risk Management

During 2019/20 the strategic/corporate risks were reviewed and changes to the framework were also identified. A strategic risk management workshop for the Board and for the Executive team was held in August 2019. This session was designed to improve Board members' skills, knowledge, and experience in detecting, challenging and gaining assurance that risks are appropriately managed. In September 2019, the Board refreshed its risk appetite and a revised risk management framework, strategy and policy were presented and discussed at a special meeting of the Audit Committee in January 2020. Training on revised responsibilities around risk management for Governance Committees was undertaken in February and March 2020 with a view to providing training at an operational level into 2020/21.

Risk Management continues to be a key area of focus for the Board and NHS Highland recognise that further work is required in 2020/21 to further embed risk management to ensure all areas and levels within NHS Highland are working uniformly in the management of risk.

## Audit Committee

The Audit Committee continue to work with Internal Audit on the follow up of outstanding internal audit recommendations. During the year the Committee were clear with management that the position on implementing internal audit recommendations required urgent focus and attention. This has led to increased efforts in obtaining updates on outstanding actions, and management being in a place to evidence the action and close the recommendation. Whilst a number of recommendations are still outstanding the position compared with the prior year is improved.

Alongside this the Committee and Management are seeking to work closer with internal audit going forward. In particular, the aim is to increase an awareness amongst the Internal Audit Review sponsors of what is expected of them when they agree to an internal audit recommendation and a timeline for delivering the agreed action. Where there is not an agreement on the action then an informed discussion needs to take place between internal audit and the NHS Highland staff member to ensure the action agreed can be implemented and takes into account priority, risk, cost and value to the organisation.

# Value for Money

We did not identify any significant wider scope risks in relation to value for money arrangements at NHS Highland within our audit plan. However, in accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion on NHS Highland's arrangements. This includes review of the performance management and monitoring arrangements.

## Headlines



NHS Highland continues to face significant performance challenges. Performance across national standards and the Board's KPIs reported in May 2020 NHS Highland were only achieving 35% of these. NHS Highland recognise that a key priority is addressing current vacancy levels whilst ensuring it has the specialist capabilities to help deliver services and meet waiting times in key acute areas.

NHS Highland shows a good commitment to the redesign and transformation of healthcare using digital technology to provide safe, smarter, and more efficient care centred around early intervention. The opportunity to support innovation and transformation of healthcare services using information and digital technology is significant within NHS Highland and would bring substantial benefits particularly given the span of the health board's remote, rural, and urban locations.



## Performance

Across 22 non-financial indicators, two did not have defined standards for which to measure performance against. Of the remaining 20, the position reported to the Board in May 2020 highlighted that the Board were only achieving 35% of the local or national targets. It is acknowledged that three of these indicators are determined on an annual basis and two biennially which could result in an improvement against these specific targets upon their revision in 2020.

Many of the indicators show increasing waiting times for patients throughout 2019/20. Significant waiting times were observed in relation to cancer and suspicion of cancer referrals, new outpatients, Child and Adolescent Mental Health Services (CAMHS), psychological therapies, and diagnostics. Other targets not being met included 18 weeks referral to treatment, treatment time guarantee, and sickness absence within NHS Highland.

NHS Highland have recognised the impact of vacancies and the difficulties in filling significant posts across the specialities on the performance metrics. Such challenges include national shortages of specialist roles as well as the nature of NHS Highland's geography. It is acknowledged that work has commenced on the development of the attraction, recruitment, and retention strategy within NHS Highland. This is intended to build a sustainable pipeline of recruits to ensure NHS Highland has a resilient workforce with the right skills in the right location. As development and implementation of the strategy progresses, we expect to see a correlation with a reduction in waiting times and enhanced performance and patient outcomes.

It was highlighted that the performance reporting is currently under review and that a new Integrated Performance & Quality report will be adopted. This will be a monthly report incorporating performance across Quality, Operational, Finance and Staff Governance metrics. This is expected to further enhance the governance and oversight of the Board upon its implementation into 2020/21.

## Performance against Annual Operational Plan Standards



- N/A- no target (2)
- Achieved or exceeded target (7)
- Failed to meet target (13)

## Procurement

As set out in the Procurement Strategy (2018-21), NHS Highland Procurement aims to support the Board's mission to improve the quality of care of all patients through the delivery of value for money procurement of goods and services whilst promoting continuous improvement.

The Procurement Strategy recognises that NHS Highland has and continues to face significant economic and financial challenges and that balancing budgets will require innovation and creativity to achieve the board's priorities. The strategy looks to support this challenge through improved contract management, adopting regionalised working practices where efficiencies are identified, and delivering procurement savings targets. Procurement is one of the workstreams contributing to the cost savings targets within the Financial Turnaround programme managed by the PMO.

## Digitalisation

Digitalisation is key within NHS Highland as it plans to transform the way it delivers services across all sectors including community, secondary, primary, and social care as well as all corporate services. The eHealth function within NHS Highland engages and works closely with staff and the public to ensure that the solutions that are delivered are fit for purpose and enhance the experience across health and care services.

In the AOP, digital transformation underpins several of the outcomes for the year ahead including elective care, mental health, primary care, and workforce. Key digital developments to support these outcomes include Electronic Patient Records (EPR), order communications, digital ward, and Near Me.

During 2019/20, the EPR programme has been progressed in a number of areas, particularly through expansion into maternity services, community services, and scanning of hospital care records. NHS Highland intends to build on these developments into 2020/21 with work continuing to improve the maturity and use of EPR across health and social care. eHealth has been developing the order communications solution within both primary and secondary care which will allow diagnostic tests to be requested electronically. This is intended not only to improve the quality of care for patients and a reduction in tests but has the potential for significant cost savings into 2021/22.

The concept of the digital ward is the ability to display a digital status of patients as they move through the healthcare system. This information will support patients to stay in the community longer, enable better patients flows, improve discharge planning, and improve bed utilisation. Work has been underway throughout 2019/20 to deliver the digital ward modules, with further development steps mapped out in the AOP for the coming years.

NHS Near Me is a new video consulting service which aims to provide outpatient consultations either at home or at a local NHS clinic. These virtual clinics have helped to create efficiencies for clinicians as well as contributing to NHS Highland's Primary Care Modernisation Programme. It is important that NHS Highland identify and reflect these efficiencies in their developing Workforce plan.

## Clinical and Care Strategy

The three key strategic priorities of NHS Highland over the coming years are to develop the "Culture Fit for Future", deliver financial balance, and create the Clinical and Care Strategy. Development of the Clinical and Care Strategy (2020-2025) commenced in 2019/20 and is ongoing into 2020/21. The first phase of the strategy is due to be submitted to the Board for approval in September 2020 and will be followed by a wider consultation in Phase 2 and implementation in Phase 3.

The Strategy aims to provide sustainable, high quality services with improved access times for patients, and sets the strategic direction for how services will develop in the future. One of the key priorities for development which was identified through a listening exercise with NHS Highland staff in December 2019 was that person centred care is delivered as close to home as it is cost/clinically effective to do so.

# Appendices

- Audit adjustments
- Action plan for 2019/20
- Follow up of prior year audit recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

# Audit adjustments

## Uncorrected and corrected misstatements

There were two corrected misstatement to the financial statements:

Item	Dr (£'000)	(Cr) (£'000)	Description
1	IJB Income	(1,280)	<i>Being adjustment to recognise IJB income and expenditure to reflect final brokerage funding</i>
	IJB Expenditure	1,280	
2	Other operating costs	(6,560)	<i>Being adjustment to recognise IAS 19 charge through staff costs rather than other operating expenditure. No impact on overall operating costs. Note impact on prior year considered immaterial</i>
	Staff costs	6,560	

We note that the final allocation letter from the Scottish Government was updated from the draft accounts. This increased the surplus against RRL from £344,000 to £411,000 but does not impact on the Statement of Comprehensive Net Expenditure.

The following unadjusted misstatements arose during our audit. This has not been corrected by the client on the basis that it is not material to the financial statements. We are satisfied that the unadjusted differences are not considered material.

Item	Dr (£'000)	(Cr) (£'000)	Description
1	Prepayments	(341)	<i>Being adjustment to prepayments and receivables reflecting the extrapolated error from our audit sampling of prepayments.</i>
	Receivables	341	

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are those adjustments that have been amended in the signed financial statements.

Item	Description	Adjusted
1	Annual governance statement	Recommended disclosure updates to reflect the governance arrangements in place during 2019/20
2	Remuneration report	Disclosure of former director's CETV calculations and disclosure changes
3	Going concern assessment	Further narrative to conclude on the Board's assessment of their ability to continue to operate as a going concern.
4	Related party disclosure	Further narrative to explain related party disclosure arrangements
5	Pension note	Pension note disclosure and accounting policies updated to reflect the departure from IAS 19 in the recognition of defined benefit pension scheme liabilities

## Disclosure misstatements – uncorrected

The following disclosure misstatements have not been corrected by management. We do not consider these to be material to the accounts and Management have agreed to review during the preparation of next years financial statements:

**Finance income / expenditure:** IAS 1 requires that the Statement of Comprehensive Net Expenditure (SoCNE) include line items that present interest revenue and finance costs. Under the NHS Scotland accounts template these items are not separately identified on the grounds of materiality. NHS Highland, in following the accounts template have also not separately disclosed these items on the SoCNE.

**Significant Judgements:** NHS Highland currently disclose significant estimates and judgements within Note 1.29 to the financial statements. However per IAS 1 there should be distinction between material estimation and significant judgements. In addition, identified that the disclosed amounts did not always meet the definition of a significant estimate or judgement or disclosure requirements of IAS 1. Where a judgement is to be disclosed these should clearly define the judgement, how the judgement has been considered by management and the impact on the accounts. Where a estimation uncertainty is disclosed, this should be areas where there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year arising from the estimation.

In addition, from review of the Estimates and judgements disclosure there are a number of disclosures the audit team would not consider to be either significant judgement that could have a material impact on the accounts or an area of estimation where there is a risk of material misstatement. In particular we would not consider the employee benefits accrual or assessment of leases to meet these definitions given the nature and value of arrangements held. Furthermore, clinical and medical negligence costs are individually assessed by the Central Legal Office based on a professional judgement and therefore we would challenge as to whether there was a material estimation uncertainty. We are satisfied that the current accounting disclosure is not materially misstated.

**Property, plant and equipment** – The financial statements currently refer to fair value in reference to the valuation of land and buildings. While this follows the Manual for Accounts it is inconsistent with HM Treasury FreM where the definition should be current value. While we are satisfied the underlying valuations are correct, the disclosure should reflect the basis of current value.

**Financial instruments:** The financial instruments disclosures summarises the financial assets and financial liabilities held by NHS Highland. The current disclosures refer to “loans and receivables” and “available for sale” which is no longer appropriate under the IFRS and should refer to Amortised Cost, Fair value through OCI or fair value through profit and loss. In addition, the accounts refer to the fair value of long-term receivables as equal to current value where Management has not obtained a calculation of fair value. The note does not explain when financial assets and financial liabilities arise including the purchase or sale of non-financial items such as goods or services. Therefore NHS Highland’s disclosure does not meet the disclosure requirements of IFRS 13 in that it does not contain sufficient information around the valuation techniques and assumptions applied in determining fair value.

**CETV Calculations:** The CETV pension information for one of the NHS Executive Directors was not available at the time of collating the financial statements (was also outstanding from the prior year). The information is received from the Scottish Public Pensions Agency. NHS Highland have included disclosure in the accounts that the information was not available.

**PPP/PFI Disclosures** – PFI obligations are measured at current value being the present value of the minimum lease payments. However, Board’s are required to disclose the fair value of these arrangements. Currently, NHS Highland does not have sufficient information to provide this disclosure. Furthermore, there are opportunities to enhance the current accounting policy surrounding the recognition of PFI / PPP arrangements including at what point the asset are recognised as PPE; that the assets are measured initially at fair value or, if lower, at the present value of the minimum lease payment; contingent rent; and, lifecycle replacement. The audit team are satisfied that the accounting recognition is appropriate and that the omissions do not materially impact the financial statements.

**Pension fund arrangements**— Disclosures required to outline the basis of accounting for the defined benefit pension scheme arrangements, including the recognition of Scottish Government funding and treatment of ‘other reserves’. In addition the movement in the Statement of Comprehensive Consolidated Net Expenditure requires updated to use appropriate terminology in accordance with IAS 19 to describe the actuarial movements and pension costs through the financial statements. Also, the additional IAS 19 defined benefit costs are recognised through other operating expenditure where under the standard they should be included in staff costs and finance costs. However, we recognise that the impact would not be material to the accounts. The defined benefit disclosures also do not include required disclosure around sensitivity analysis, asset management strategy or weighted average duration of the defined benefit obligation.

**Accounting policies:** Accounting policies do not explicitly refer to IFRS 15 and some of the description of the deferral of income is inconsistent with the requirements of the standard and out of date. In addition, the accounting policy for impairment does not define how impairment is considered in accordance with the methodology outlined within the FReM and IFRS 9. From our audit procedures performed we are satisfied that the recognition of income and expenditure is not materiality misstated and therefore do not consider the omission in accounting policies to be material.

**Accounting policies:** The accounting policies do not explicitly state the accounting recognition of the Integration Joint Board as a Joint Venture relationship. The accounts should disclose the nature of this relationship and basis of recognition in the financial statements. The Board has followed the accounting policies outlined within the NHS Scotland Manual for Accounts and we are satisfied that the underlying accounting treatment is appropriate and therefore do not consider the omission to be material to the accounts.

**Statement of Consolidated Comprehensive Net Expenditure:** IAS 1 has specific disclosure requirements in relation to the primary financial statements. We found that the Board’s accounts did not comply with the disclosure requirements of IAS 1 in relation to the following disclosures:

- ‘actuarial charge in local government pension’ should be described as ‘remeasurement of the net defined benefit liability’
- The statement should include disclosure of interest and revenue finance costs. However, the Board, in following the NHS Manual for Accounts includes these in operating costs.
- Items included in ‘other comprehensive net expenditure’ should be split between those that will not be / may be reclassified to ‘net operating expenditure (profit /loss)’.

We are satisfied that these are not material disclosure errors.



# Action plan 2019/20

We have set out below, based on our audit work undertaken in 2019/20 the following recommendations.

Recommendation	Agreed management response
<p><b>1. Long term receivables</b></p> <p>NHS Highland recoup part of the costs incurred in the delivery of residential care services through amounts collected from the sale of a patient's property. The amounts can often take a number of years to recover. Management forecast the likely level of revenue that will be recovered through consideration of local property market and likelihood of recovery. However, the current receivable balance of £4 million is not based on the present value of estimated future cash receipts and therefore not reflective of its current value. While not material to the financial statements, we recommend management review the basis of recognition of this revenue stream.</p>	<p>Management response: Basis to be reviewed during 2020/21</p> <p>Action owner: Head of Area Accounting</p> <p>Timescale for implementation: March 2021</p>
<p><b>2. Financial Management and sustainability</b></p> <p>NHS Highland should look to address the reliance on locum and agency staff in order to achieve long term financial sustainability. This could be supported by the Attraction, Recruitment &amp; Retention Strategy currently under development which intends to build a resilient workforce with the right skills in the right locations.</p>	<p>Management response: This has long been recognised as an area for improvement. As well as the Attraction strategy, medical workforce is a specific workstream within the financial recovery programme board led by the medical director with a key theme being the reduction on the reliance of locums. Further, resource from within HR has been identified to focus upon the improvements required to deliver the strategy.</p> <p>Action owner: Director of HR(Strategic), Director of Finance (workstream)</p> <p>Timescale for implementation: March 2021</p>
<p><b>3. Highland Council Lead Agency Model</b></p> <p>Since 1 April 2012, health and social care in the Highland region has been formally integrated through the lead agency model rather than via the Integration Joint Board model. The Integration Scheme and Partnership Agreement is due for renewal at the end of June 2020 and discussions have taken place to agree how the financial gap of £9.5 million will be funded and an appropriate level of funding for Adult Social Care going forward. Discussions have sought to best resolve the financial issues between NHS Highland and The Highland Council and ensure the most appropriate structure is in place. This is ongoing and the outcome will ultimately impact on 2020/21.</p>	<p>Management response: Discussions with THC and SG have tentatively resumed with regards to resolving this recognising that the covid pandemic has delayed progress. The current agreement remains in place and it anticipated that discussion will resume in the coming months with a revised agreement in place by the end of September.</p> <p>Action owner: Director of Finance</p> <p>Timescale for implementation: September 2020</p>

---

**Recommendation****Agreed management response**

---

**4. Senior Leadership stability**

NHS Highland would benefit greatly from a period of sustained stability in its leadership to ensure continuity in its direction and operations.

In establishing a stable leadership team, NHS Highland should consider the development of a senior leadership succession plan supporting how they build capacity and capability within the team going forward.

Management response: Agreed

Action owner: Director of Human Resources

Timescale for implementation: March 2021

---

# Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations and these are reflected below for information.

## Recommendation

---

### Clinical and Medical Legal claims and CNORIS provisions

We recommend that during 2019/20 Management continue to liaise with the CLO to ensure that local intelligence and information is taken into account within the CLO assessment and report, and that the CLO report reflects the most accurate position of outstanding claims as at 31 March 2020.

### Initial management response

Agreed

### Follow up – Closed

We are satisfied that the 2019/20 Clinical and Medical Legal Claims and CNORIS provision have been recognised appropriately in the 2019/20 financial statement, taking into account the information provided by CLO when assessing the position of outstanding claims as at 31 March 2020.

---

### Annual Report and Accounts on website

Management should discuss with Highland Pension Fund the impact of the McCloud case and any resultant decision on the IAS 19 report for 2019/20, to ensure any future liability is captured in the pension liabilities.

### Initial management response

Agreed

### Follow up - Closed

We have confirmed that the actuary has incorporated the impact of the McCloud case within the actuarial valuation for the Highland Pension Fund as at 31 March 2020.

---

## Recommendation

---

### Financial management

The Board's strategic report and performance report should be further reviewed in 2019/20 to ensure that it fully captures the outcomes NHS Highland are delivering, and "tells the story" of the year, in a way that is meaningful and understandable to the user of the annual report and accounts. This could include enhanced performance information, covering national and local performance standards that are set.

### Initial management response

NHS Highland will improve the strategic & performance reports for 2019/20, seeking out examples of good practice from other areas to assist in this.

### Follow up – Ongoing

Following the COVID-19 outbreak, NHS Scotland issued revised guidance around the reporting requirements for health boards. In particular, for 2019/20 health boards are allowed to minimise performance reporting within the performance report to focus on statutory performance requirements and instead report summary information within the overview section. However, going forward Management should consider for the 2020/21 financial statements the Board's strategic report and performance report to ensure that it focuses on the outcomes NHS Highland are delivering and provides the reader with an understanding of performance during the year.

**Responsible Officer: Director of Finance**  
**Revised implementation date: March 2021**

---

### Savings plans

As agreed with SGHSCD, NHS Highland should continue to develop detailed savings plans and refresh the AOP Financial assumptions by the end of July 2019. As planned the focus should be on recurring savings, and savings which are achievable in year and then over the three year period to support the Board back into a balanced financial position. Plans should be in place to continue the work of the PMO and the wider engagement in identifying and delivering savings, so this continues in the absence of SGHSCD support.

### Initial management response

NHS Highland is on track to provide SGHSCD an update to the financial assumptions within the AOP by the end of July. The formation of a financial recovery programme board to lead the recovery process will ensure that the work of the PMO continues and is embedded within the organisation.

### Follow up - Closed

The Financial Recovery Board was established during 2019/20. The Programme Board is taking forward the actions to develop and delivery the financial recovery plan. While the COVID-19 pandemic resulted in a pause to the recovery activity, the board is in the process of reviewing the financial recovery plan alongside the re-mobilisation plan to develop and efficient and sustainable ways of returning operations.

---

### Finance capacity

We recommend finance continue to look at ensuring they have sufficient capacity to support the transformational agenda, recognising one team retirement in 2019/20 and the relative size of the current team, which is small compared to the size of the Board and the challenges we have outlined.

### Initial management Response

Management are extremely conscious of capacity shortfalls and succession planning issues within the current team. Work has already began on redesign of the finance structure with the expectation of increasing capacity and minimising the risk of future potential changes in staff.

### Follow up - Closed

During 2019/20 Management progressed with the redesign of the finance function. The board made the permanent appointment of the Director of Finance and has also supplemented the Board's capacity through establishing a Head of Finance and additional resource to support PMO. While finance capacity continues to remain an area of focus this will form part of a wider workforce evaluation.

---

## Recommendation

---

### Leadership and capacity

NHS Highland should continue to focus on staffing (internally or externally) the PMO function and ensuring the future PMO has the skills and capacity to oversee the financial transformation programmes and that the momentum established in 2018/19 does not dip.

### Initial management response

The PMO and associated processes are already well established and working well with support from PwC. NHS Highland recognises the potential risk of both capacity and skills lost when the PwC contract comes to an end. Active recruitment has already begun with some success. Further, to add capacity staff members from the existing KPO team are transferring to the PMO to enhance capacity further. Recruitment to a permanent PMO Director is being actively pursued.

### Follow up - Ongoing

During 2019/20 NHS Highland made progress in developing the PMO operation, including the transition from PwC. To support the board's financial recovery programme, the board secured an extension to the interim PMO directors' contract to the end of the financial year. As part of the remobilisation plans and financial recovery process, it will be important that the Board ensures it has appropriate skilled and experienced personnel within the PMO to enable it to continue to embed and support the organisation deliver its strategic transformation.

**Responsible Officer: Director of Finance**

**Revised implementation date: October 2020**

---

### Governance arrangements

NHS Highland should continue to progress the implementation of the blueprint action plan and in particular should ensure there is not further slippage against the planned timescales and the necessary improvements are put in place, and operate effectively during 2019/20.

### Initial management response

NHS Highland is committed to implementing the actions contained within the Action Plan associated with the Blueprint for Good Governance. A number of development and training sessions have been held to fulfil the actions identified, and revised board induction processes are to be trialled with the whole Board.

### Follow up - Ongoing

NHS Highland has made good progress in implementing the Action Plan associated with the Blueprint for good Governance. As at April 2020, 8 of the 14 actions had been fully completed. Of the 6 remaining outstanding actions, 1 had been partially completed with progress deferred until post-Covid, 4 were in development and 1 not yet completed. It is important that there is momentum applied to progress these outstanding actions to ensure the governance framework in place is effective, transparent, and applied consistently throughout the organisation in line with the Blueprint for Good Governance.

**Responsible Officer: Board Secretary**

**Revised implementation date: March 2021**

---

## Recommendation

---

### Governance – Audit Committee

The membership of the audit committee should be reviewed in light of the revised Scottish Government Assurance handbook and the UK Corporate Governance code. In addition, the Committee should take forward the planned actions around overseeing the implementation of internal audit recommendations so there is a marked improvement in progress alongside agreeing with management the future quality of the information submitted to the Committee to support the Committee in fulfilling its role effectively.

#### Initial management response

The membership of the Audit Committee will be reconsidered in light of the Scottish Government Assurance Handbook and the UK Corporate Governance Code. The Audit Committee will track and invite Internal Audit sponsors to report on progress to future meetings and ensure better Leadership Team engagement.

#### Follow up - Ongoing

NHS Highland has made considerable changes to governance arrangements throughout the year. We have also observed significant changes in the functioning of the Audit Committee including scrutiny of Internal Audit reports and challenge of the Leadership Team. This process will take time to embed and it is important that there continues to be self-reflection and assessment of the committee to ensure that it operates in an efficient and effective manner.

**Responsible Officer: Board Secretary (Membership), Director of Finance (Committee Operations)**

**Revised implementation date: March 2021**

---

## Risk Management

The Board's arrangements in respect of risk management should be strengthened in 2019/20. In particular, the identification of strategic risk, the mitigation of the risks identified, the overall risk management framework and then the role and remit of the respective governance committees related to risk. The planned increase in risk management support and capability should also be introduced in 2019/20.

#### Initial management response

The Board is to hold a Strategic Risk Management workshop in August 2019 to help with consistency of understanding the board's responsibilities and leading to a refreshed risk register and risk appetite statement. NHS Highland is also committed to recruiting a dedicated Risk Manager during 2019-20 to strengthen its capability for risk management.

#### Follow up - Ongoing

During 2019/20 the strategic/corporate risks were reviewed and changes to the framework were also identified. A strategic risk management workshop for the Board and for the Executive team was held in August 2019. This session was designed to improve Board members' skills, knowledge, and experience in detecting, challenging and being assured that risks are appropriately managed. In September 2019, the Board refreshed its risk appetite and a revised risk management framework, strategy and policy were presented and discussed at a special meeting of the Audit Committee in January 2020. However, further work is required in 2020/21 to embed revised risk management framework and it will be important that changes are implemented with sufficient pace to support effective management of risk across the organisation.

**Responsible Officer: Chief Executive Officer**

**Revised implementation date: October 2020**

# Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	157,177
Pooled costs	16,670
Contribution to Audit Scotland costs	8,420
Contribution to Performance Audit and Best Value	-
<b>2019/20 Fee</b>	<b>182,267</b>

## Fees for other services

Service	Fees £
We confirm that for 2019/20 we did not receive any fees for non-audit services	Nil

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.



# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at NHS Highland.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for NHS Highland this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Highland we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NHS Highland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with NHS Highland to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Highland's arrangements in response to the National Fraud Initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

# Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity <b>Confirmed, no matters to report.</b>	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern <b>None identified although commentary included on financial sustainability alongside going concern commentary.</b>	•	•
Views about the qualitative aspects of NHS Highland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures <b>Included within the report.</b>		•
Significant findings from the audit <b>Included within the report</b>		•
Significant matters and issues arising during the audit and written representations that have been sought <b>Included in this report and letter of representation obtained at date of signing.</b>		•
Significant difficulties encountered during the audit <b>None identified.</b>		•
Significant deficiencies in internal control identified during the audit <b>None identified.</b>		•
Significant matters arising in connection with related parties <b>None identified.</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements. <b>None identified.</b>		•
Non-compliance with laws and regulations <b>None identified</b>		•
Unadjusted misstatements and material disclosure omissions <b>Reported in Appendix 1 of this report.</b>		•
Expected modifications to the auditor's report, or emphasis of matter. <b>Emphasis of matter included in the audit report, due to valuation of property, plant and equipment uncertainty.</b>		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit reporting process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

© 2020 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.