

NHS Highland

External audit annual report to those charged with governance and the Auditor General for Scotland

Financial year ended 31 March 2022

9 August 2022 – Final Report



Contents



Your key Grant Thornton team members are:

Joanne Brown

Audit Partner

T 0141 223 0848

E joanne.e.brown@uk.gt.com

Claire Connor

Senior Manager

T 0141 223 0814

E claire.e.connor@uk.gt.com

Rudi Farmer

Audit In-Charge

T 0131 659 8543

E rudi.farmer@uk.gt.com

Section	Page
Executive Summary	03
Introduction	08
Audit of the annual report and accounts	09
Wider scope audit	31
Appendices	
1. Audit adjustments	43
2. Action plan and recommendations	52
3. Follow up of 2020/21 recommendations	55
4. Follow up of 2019/20 recommendations	58
5. Follow up on 2018/19 recommendations	61
5. Audit fees and independence	63
6. Communication of audit matters	64

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 external audit 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 Board or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of NHS Highland and the preparation of the group and NHS Highland's financial statements for the year ended 31 March 2022.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Board's financial statements give a true and fair view of the financial position of the group and Board and the group and Board's net expenditure for the year;
- the group and Board's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (FRoM);
- the group and Board's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report whether other information published together with the audited financial statements in the Annual Report and Accounts, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We have completed our audit of your financial statements and have issued an unmodified audit opinion following the Audit Committee and then subsequent Board meeting on 28 June 2022.

Our audit work was completed remotely during May, June and July 2022. We have identified 6 unadjusted misstatements to the financial statements that have a net impact of £0.453 million debit to the Statement of Consolidated Comprehensive Net Expenditure for the year. Audit adjustments are detailed in Appendix 1 which also includes adjusted misstatements as well as disclosure corrections identified during our audit testing. We have raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior year's audit are detailed in Appendix 3.

We conclude that the Remuneration Report and Staff Report, subject to audit, has been prepared in accordance with requirements and is materially correct. Within our audit testing we did not identify any non-compliance with laws and regulations and our regularity opinion is unmodified.

We have concluded that the information given in the Performance Report and the Governance Statement is consistent with the financial statements and has been prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider the Board's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2022 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial management

NHS Highland delivered a break-even position in 2021/22, achieving a small surplus of £0.455 million against its Revenue Resource Limit. A breakeven position was also achieved against the Capital Resource Limit set.

The COVID-19 pandemic continued to have a financial impact on NHS Highland, as well as a service delivery impact, similar to other health boards across Scotland. Quarterly returns were submitted by the Board to Scottish Government in an agreed format during the year which detailed expenditure incurred as well as forecasting expenditure to the end of the financial year.

Funding allocations were made during the year, with the final allocation received in January 2022. In addition to funding all costs associated with COVID-19, Scottish Government provided funding to cover slippage on the Board's cost improvement programme (CIP).

Scottish Government provided a COVID-19 funding package of £88.861 million to NHS Highland in-year. This included funding in respect of COVID-19 costs incurred in 2021/22 which are being managed by Argyll & Bute IJB, Scottish Government and Highland Council. The Financial Plan for 2021/22 required £32.900 million of savings to be delivered through the CIP. Savings of £20.463 million were delivered by the Board in respect of this target in 2021/22, £2.865 million of which is deemed to be recurring savings. The remaining £12.437 million of savings required was funded by the Scottish Government as part of the afore mentioned COVID-19 funding package.

NHS Highland has financial monitoring arrangements in place which provide clarity around the Board's financial performance and projected performance throughout the year. Through the audit procedures performed we have not identified any significant risks in relation to NHS Highland's financial management arrangements.

Executive Summary

Wider scope audit (continued)

Financial Sustainability

A one year Financial Plan for 2022/2023 was submitted to Scottish Government in March 2022 and presented to the Board in May 2022. The Financial Plan identifies an initial budget gap of £42.272 million with an expected CIP programme delivery of £26.000 million savings planned. This left an unfunded budget gap of £16.272 million at the start of 2022/23. Discussion around this unfunded element is ongoing with Scottish Government. During 2020/2021 and 2021/2022 Scottish Government provided financial support in respect of slippage against NHS Highland's Cost Improvement Programme recognising the impact that COVID-19 had on delivery. Recent correspondence from SG indicates that funding will not be available for any slippage against the CIP in 2022/2023. The CIP, which is still being developed, will be challenging and the risk around delivery should be recognised. Delivery of savings is managed through the Programme Management Office who report progress weekly to the Financial Recovery Board. The budget for 2022/23 has been built on the basis of a baseline uplift of 3%, amounting to £21.2 million. This includes £3.1 million to meet the required 0.8% of NRAC parity.

NHS Highland have considered their financial sustainability for 2022/23, in line with Scottish Government requirements, incorporating key assumptions and risks. In addition, the impact of Covid-19 on financial plans in future years has been considered. The 2022/23 Financial Plan currently includes an unfunded budget gap of £16.272 million and NHS Highland expect that an element of brokerage will be required. We recommend that NHS Highland continue to look to identify ways in which this gap can be reduced and where that is not deemed to be possible discussions should also continue with Scottish Government to inform them of any potential brokerage requirements as soon as practicable.

Executive Summary

Wider scope audit (continued)

Governance and transparency

The Healing Process opened for registration in May 2020 and closed to new registrants on 31 March 2021. with 340 registrations received in total. At March 2022, 271 Independent Review Panel outcomes had been approved by the NHS Highland Remuneration Committee, which included;

- 232 recommendations for financial payment to be awarded amounting to £2.795 million; and
- 116 apologies having been issued by the Chief Executive.

Funding has been provided by the Scottish Government to cover the cost of claims awarded and the set up and administration costs of running the process. NHS Highland estimate that on completion of the process, the total cost of claims will be approximately £2.954 million. Set up and running costs to date amount to £2.392 million. Further costs of administration will continue to be incurred in 2022-23 as the final cases are settled. NHS Highland expect the process to close by July 2022, after which a final report will be made to the Board. NHS Highland have received three Organisational Learning reports to date from the Independent Review Panel, which have been reported to the Board and actions taken to address the findings made within are also being tracked. An Internal Audit also took place in relation to the Healing Process during the year which identified two grade 2 management actions (moderate risk exposure) as well as one grade 3 management action (high risk exposure) recommending NHS Highland to develop an information asset register for the Healing Process.

The Culture Oversight Group has continued to meet throughout the year and has overseen the progress of the Culture programme and plans. The Culture programme introduced a new style dashboard report in March 2022 that outlines the Culture programme status and risks to support progress management. The dashboard reports on status, progress, risks and milestones and a summary of key areas. Going forward it is also planned that progress against wider actions linked to colleague surveys and reports by the Independent Review Panel of the Healing Process will also be monitored through the dashboard. The Culture Programme is currently reporting Green for delivery overall. Later in 2022 NHS Highland expect to transition from a programme led approach into Culture being delivered as part of the work plan for its new People and Culture Directorate.

Executive Summary

Wider scope audit (continued)

We note that NHS Highland have demonstrated their continued focus on Culture, including the Healing Process, during 2021/22. From review of Board and Committee minutes and papers, we found that there was clear and transparent reporting in relation to both the Healing Process and Culture in general. In addition, independent insight and assurance has been sought from the Independent Review Panel and Internal Audit, reflecting NHS Highland's continued focus on assessment and improvement in these areas.

Value for money

During 2021/22 the pandemic continued to impact on performance delivery. The Board agreed a one-year Strategy in support of its Remobilisation Plan in March 2021 entitled 'Remobilise, Recover, Redesign: NHS Highland Strategic Direction 2021 – 2022' which set out the Board's vision, values and Board level objectives. In September 2021 the Board approved the development of a five-year strategic plan underpinning delivery of Scotland's vision for achieving sustainable, quality health care services. Since September 2021, the Board has received frequent updates on progress with the development of the Strategy which is now expected to be fully endorsed by the Board in July 2022.

The Board's Remobilisation Plan Version 4 was approved by the Board in September 2021 and reviewed in January 2022. The Remobilisation Plan submitted to Scottish Government reflects the anticipated recovery of the health and care system through until April 2022. The Plan focuses on the areas agreed as priorities with the Scottish Government and includes information on 15 workstreams and associated projects to improve patient care and to transform services to ensure they are fit for purpose in the new context the NHS finds itself in. The Integrated Performance and Quality Report takes a cross system view of performance and has a particular focus on the Remobilisation Plan targets, reflecting the performance of NHS Highland in the context of remobilisation and the ongoing impact of COVID-19. The Remobilisation Plan has been agreed with the Scottish Government Health and Social Care Directorate. The component parts of the Remobilisation Plan are monitored regularly through the Highland Health & Social Care Committee and the Argyll & Bute Integration Joint Board, which provide assurance to the Board that the operational units are on track to deliver the key objectives. We have not identified any further risks or significant deficiencies in relation to lead agency and partnership working arrangements within the Board.

Introduction

Scope of our audit work

This report summarises our findings from our external audit work for the financial year ended 31 March 2022. The scope of our audit was set out in our External Audit Plan which was presented to the Audit Committee in March 2022.

The main elements of our audit work are:

- An audit of NHS Highland's annual report and accounts for the financial year ended 31 March 2022;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money;
- Monitoring NHS Highland's participation in the National Fraud Initiative (NFI);
- AS data return;
- Provide support in relation to overview reporting; and
- Consideration of NHS Highland's arrangements for equality and fairness as well as considering the risk of fraud in procurement.

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

This report is addressed to the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

NHS Highland is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to the Board throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

We have identified 6 unadjusted misstatements to the financial statements that have a net impact of £0.453million debit to the Statement of Consolidated Comprehensive Net Expenditure for the year. Audit adjustments are detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2.

Our audit opinion

For the financial year ended 31 March 2022 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the group and Board's financial statements give a true and fair view of the financial position of the group and Board and the group and Board's net expenditure for the year;
- The group and Board's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (FRoM), and the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder.
- expenditure and income were in accordance with applicable enactments and guidance (regularity); and,
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan our audit work commenced on 9th May 2022. We received the draft financial statements including the Performance Report, the Accountability Report, the Governance Statement and Remuneration Report and Staff Report on 10 June 2022 which was then subject to revision and review by management with a final version of draft annual accounts received during June 2022.

The draft annual accounts are based on the Scottish Government Health and Social Care Directorate template accounts.

Our audit was carried out between May, June and July 2022 remotely for the third year. Management and the Audit Team have worked well together to conclude the audit.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Audit approach
Highland Health Board (“the Board”)	Yes		Risks set out on pages 15 to 22 of this report	Full scope audit performed by Grant Thornton UK LLP.
Highland Health Board Endowment Funds (“the Endowment Fund”)	No		We have not identified any significant risks of misstatement of the group financial statements, however the following balances were above performance materiality and substantive audit procedures were therefore performed in relation to these: <ul style="list-style-type: none"> Investments. 	Specific procedures completed on these balances by Grant Thornton UK LLP. No issues noted.
Argyll and Bute Integration Joint Board (“the IJB”),	No		A joint venture accounted for on an equity basis. We have not identified any significant risks of misstatement of the group financial statements, however the following balances were considered to be material to the group: <ul style="list-style-type: none"> Investments in associated and joint ventures 	Specific procedures performed on these balances by Grant Thornton UK LLP. No issues noted.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Audit of the annual report and accounts

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit Committee on 8 March 2022. We updated our audit materiality to reflect your 2021/22 draft financial statements. Materiality is set at £10.70 million for Group (Board only £10.69 million), representing 1.01% of gross expenditure less IJB contributions. This was an increase from our audit plan (Group £10.706 million and Board only: £10.699 million) as a result of the increased expenditure in year. Performance materiality was set at £7.49 million for the Group (Board only £7.48 million), representing 70% of our calculated materiality.

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

We applied a lower materiality threshold of £25,000 for Senior Officers' Remuneration for disclosures within the Remuneration Report and Staff Report to ensure that Senior Officers' Remuneration has been disclosed appropriately.

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 2021/22 the service audit reports from KPMG on IT Services (National IT contract for services provided by ATOS Origin Alliance supporting eFinancials) and Payments to Primary Care Contractors and the BDO service auditor report over National Single Instance (NSI) eFinancials were all unqualified.

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service Auditor reports and the impact on our audit procedures, we do not place direct reliance on their work. From consideration of the reports we are therefore satisfied that the unqualified opinions do not impact on our audit work.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Board's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is 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. Areas of recommendation have however been identified over the course of the audit and have been outlined in Appendix 2 of this report.

NHS Highland's financial performance during 2021/22

The Scottish Government requires NHS Boards to meet three key financial targets:

- a Revenue resource limit;
- a Capital resource limit; and
- a Cash limit.

NHS Highland delivered a break-even position in 2021/22, achieving a small surplus of £0.455 million against its Revenue Resource Limit. A breakeven position was also achieved against the Capital Resource Limit set.

The COVID-19 pandemic continued to have both a financial impact on NHS Highland, as well as a service delivery impact during 2021/22, similar to other health boards across Scotland. Quarterly returns were submitted by the Board to Scottish Government in an agreed format during the year which detailed expenditure incurred by the Board as well as forecasting expenditure to the end of the financial year.

Funding allocations were made throughout the year, with the final allocation received in January 2022. In addition to funding all costs associated with COVID-19, Scottish Government also provided funding to cover slippage on the Board's cost improvement programme. Similar funding packages were put in place nationally to ensure financial parity at 31 March 2022.

In total Scottish Government provided a COVID-19 funding package of £88.861 million to NHS Highland during 2021/22. This included funding in respect of COVID-19 costs incurred in 2021/22 which are being managed by Argyll & Bute IJB, Scottish Government and Highland Council.

The Financial Plan for 2021/22 required £32.900 million of savings to be delivered through the Cost Improvement Programme ("CIP"). Savings of £20.463 million were delivered by the Board in respect of this target in 2021/22, £2.865 million of which is deemed to be recurring savings. The remaining £12.437 million of savings required was funded by the Scottish Government as part of the afore mentioned COVID-19 funding package.

The total Capital Funding for NHS Highland for 2021/22 was £64.825 million including £16.192 million in relation to the Skye, Badenoch and Strathspey Hospital Bundle and £22.436 million in relation to the National Treatment Centre in Highland.

NHS Highland's performance continued to be adversely impacted by Covid-19. The Board continues to work through its Remobilisation Plan, as it looks to fully re-establish services.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/under £'000
Core Revenue Resource Limit	904,653	904,198	455
Non-core Revenue Resource Limit	32,815	32,815	0
Total	937,468	937,013	455
Core Capital Resource Limit	64,825	64,825	0
Non-core Capital Resource Limit	16	16	0
Total	64,841	64,841	0
Cash requirement	1,004,731	1,004,731	0

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in our External Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override NHS Highland's internal controls, related to individual transactions. Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> • We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures. • We reviewed accounting estimates for management bias/indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2022 and retrospective review of those estimates as at 31 March 2021. • Journals testing including: <ul style="list-style-type: none"> • 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 were appropriate and suitably recorded in the financial ledger; • Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries. <p>Conclusion</p> <p>We did not find evidence of management override of controls in our testing of journal transactions or any instances of material error. Furthermore we did not identify any indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.</p>

Risks identified in our Audit Plan

Risk of fraud in revenue recognition

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to income received via Revenue Resource Allocations direct from Scottish Government. Similarly funding from services commissioned from the IJB and revenue from other Scottish Boards is well forecast and is agreed to funding letters/inter-Board funding agreements, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. As such, we rebut the risk of fraud in revenue in relation to these income streams.

However, in 2021/22 Health Boards are not facing significant external pressure to restrain budget overspends as a result of COVID-19, with continued financial support being provided to Health Boards by Scottish Government as a result of the pandemic. NHS Highland recognised £134.710 million of “Other” income in 2021/22 which we deem to be material to the financial statements. We have therefore identified the risk of fraud in revenue in relation to the year end Other Income cut-off arrangements, where it may be advantageous for management to recognise less income in the current financial year and instead recognise this income in the next financial year when additional financial support may not be made available to NHS Highland.

Commentary

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over other Income;
- Substantive testing of Other Income recognised during 2021/22 to confirm its occurrence, accuracy and completeness of recording;
- Focused substantive testing of “Other Income” recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off; and
- Tested accrued income and debtors (where material) to gain assurance over the occurrence and accuracy of these balances as at year end.

Conclusion

Whilst testing the reconciliation for “Income from other NHS Scotland Bodies” we identified £0.713 million of overstated income. This misstatement has been adjusted for within the final financial statements. See details at [Appendix 1](#).

Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of Other Income recognised by NHS Highland during 2020/21. No exceptions were identified as a result of focused testing performed in relation to the risk of cut-off. As a result of our detailed testing of accrued income and debtors no exceptions were noted. As a result of our substantive procedures and sample testing we did not identify any income which was not in accordance with the nature of NHS Highland (regularity testing).

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition

As set out in practice note 10 (revised) which applies to public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

NHS Highland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focus our risk on the following non-payroll expenditure streams: independent primary care services, drugs and medical supplies and other healthcare expenditure. Our testing will include a specific focus on year end cut-off arrangements, including consideration of the existence of accruals and provisions, where it may be advantageous for management to recognise more expenditure in the current financial year due to receiving continued additional financial support from Scottish Government as a result of the COVID-19 pandemic, which may not be made available to NHS Highland in the next financial year.

Commentary

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over other operating expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording;
- Focused substantive testing of Expenditure recognised pre and post year end to identify if there is any potential overstatement to address the risk of cut-off; and
- Tested accruals and provisions, where material, around the year end to consider if there is any indication of overstatement of balances held at year end through consideration of accounting estimates and management judgements.

Conclusion

Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of expenditure recognised by NHS Highland during 2021/22. No exceptions were identified as a result of focused testing performed in relation to the risk of cut-off. No exceptions were identified as a result of focused testing performed in relation to accruals and provisions. As a result of our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with applicable guidance and legislation (regularity testing).

Risks identified in our Audit Plan

Commentary

Valuation of property, plant and equipment (land and buildings)

In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, NHS Highland 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 costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. As at 31 March 2022, NHS Highland held PPE of £461.717 million including land, buildings and dwellings of £383.494 million. Given the value of land, buildings and dwellings held by NHS Highland and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the year end valuation of these assets. The risk is less prevalent in non land, buildings and dwellings assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be misstated. NHS Highland appoint Gerald Eve and FG Burnett to undertake a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years.

Our audit response was as follows:

- Walkthroughs of the controls and procedures over the valuation of land and buildings;
- Consideration 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;
- Evaluation of the competence, capability and objectivity of the Board's professional valuers who represent management's experts under ISA 500;
- Testing the accounting entries processed by management in relation to the valuation to ensure these were in accordance with the Manual / FReM;
- Testing the data and assumptions applied by management (and their experts) in producing the valuation estimate;
- Review of the suitability of indices applied in the valuation of land and buildings including challenging the reasonableness of the rates applied;
- Challenged management's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Board; and
- Using our auditor's valuation expert in order to challenge management's expert as well as NHS Highland management around the valuation instructions issued and approach adopted by the Board in valuing land and buildings as at 31 March 2022.

Risks identified in our Audit Plan

Valuation of property, plant and equipment (land and buildings) (continued)

Based on our planning procedures to date and subject to the results of the final valuation we focus the risk on:

- Land and buildings where the valuation movement is not in line with the audit team's expectation;
- Land and buildings which have been valued by the valuers without any physical inspection of relevant data; and
- Land and buildings which have not been formally valued during the year and management's assessment of impairment in relation to such assets.

Commentary

Conclusion

The following recommendations were raised in relation to our audit work over the land and buildings valuation during the current year audit:

- NHS Highland's accounting policies state that valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices (indexation) since the latest valuation. It was noted in the prior year audit that £36.997 million of assets had not been revalued for a period of more than 5 years. We recognise that management focused on ensuring that more of these assets were subject to formal valuation in the current year however as a result of our audit procedures in the current year we identified £27.117 million of assets that had yet to be revalued for a period of more than 5 years. Management confirmed that they are satisfied that as a result of indexation which has continued to be applied to these assets since their previous valuation, as well as through managements consideration of impairment in relation to assets which have not been professionally valued during 2021-22, that they are satisfied that these assets are not materially misstated or materially impaired. We recognise that these asset values are material however we are satisfied indexation has continued to be applied to these assets in the years since their last formal valuation and are therefore satisfied that these assets are not materially misstated. However we recommend that management continue to review the procedures and controls they have in place to ensure to ensure that **all** land and building assets are reviewed as part of the 5-year programme of professional valuations going forward. As part of our audit work in this area we also identified 4 buildings and 4 plots of land recorded in the Fixed Asset Register ("FAR") at NBV of nil that had previously been disposed of. Again we would recommend that management continue to review the controls they have in place to ensure that all disposals are reflected in the FAR at the time of disposal. A management action has been raised in Appendix 2 in relation to this matter. See [Appendix 2 - Action Plan](#);

Risks identified in our Audit Plan

Valuation of property, plant and equipment (land and buildings) (continued)

Based on our planning procedures to date and subject to the results of the final valuation we focus the risk on:

- Land and buildings where the valuation movement is not in line with the audit team's expectation;
- Land and buildings which have been valued by the valuers without any physical inspection of relevant data; and
- Land and buildings which have not been formally valued during the year and management's assessment of impairment in relation to such assets.

Commentary

Conclusion (continued)

- Despite the audit team recognising a recommendation in last year's Annual Audit Report in relation to the matter, it was noted again in the current year audit that there are still no formal terms of engagement in place between NHS Highland and its appointed valuers. The RICS Red Book states that this is a mandatory standard, with the details outlined within the Global Standards - VPS 1.
 - Having reviewed the initial valuation report that NHS Highland had received from its appointed valuers for the 2021-22 valuation, the audit team identified errors within the detail of the valuation report in relation to the valuation of 7 assets. The errors themselves were immaterial and did not impact on the valuation postings to NHS Highland's asset register and annual accounts. The errors were corrected and an updated valuation report was issued by the Board's valuers however we recommend that management ensure that valuation reports are adequately reviewed upon receipt and that where errors are identified, these are reported to valuers accordingly. See [Appendix 2 - Action Plan](#)
-

Risks identified in our Audit Plan

Valuation of LG defined benefit pension scheme

As part of the terms and conditions of employment for staff transferred from Highland Council to NHS Highland, 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 as at 1 April 2012 attributable to these NHS Highland staff in the Highland Council's financial statements. 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.

Commentary

Our audit response was as follows:

- Performed walkthroughs of the controls and procedures over the valuation of defined benefit pension scheme liabilities, including management's oversight of the valuation;
- Considered the work of the actuary ([Hymans Robertson LLP]), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries);
- Reviewed the basis used for estimating NHS Highland's share of the assets and liabilities of the LGPS;
- Obtained assurances over assets held, membership data and employer and employee contributions in the year;
- Performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation;
- Reviewed the accounting entries and disclosures made within NHS Highland's financial statements in relation to the defined benefit pension scheme; and
- Evaluated the competence, capability and objectivity of the work performed by management's expert and the work performed by auditor's expert (PwC) under ISA 500 (UK) and ISA 620 (UK).

Conclusion

NHS Highland recognise the cost of these retirement benefits in the Statement of Comprehensive Net Expenditure (SoCNE) when they are earned by employees, rather than when the benefits are paid as pensions. Highland Council recognise the liability as 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 subsequent years is charged to the NHS Highland SoCNE. The pension liabilities are subject to an annual actuarial IAS 19 valuation to arrive at the value of scheme assets and liabilities. As the arrangement is funded by Scottish Government both the impact of the IAS 19 valuation on service costs and actuarial remeasurements on NHS Highland are funded through Annually Managed Expenditure funding in year. As such the accounting for the LGPS within the NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the SOFP and instead the impact of the liability is removed to other reserves.

Risks identified in our Audit Plan

Valuation of LG defined benefit pension scheme

As part of the terms and conditions of employment for staff transferred from Highland Council to NHS Highland, 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 as at 1 April 2012 attributable to these NHS Highland staff in the Highland Council's financial statements. 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.

Commentary

Conclusion (continued)

We have confirmed with Scottish Government directly that this departure from the accounting requirements of the FREM and IAS 19 defined benefit obligations is acceptable and that the accounting treatment used by NHS Highland in relation to this matter is deemed to be appropriate. For 2022/23 we have recommended that NHS Highland liaise with Scottish Government to either get a revised Accounting Direction, to make the IAS19 departure clear or a more formalised agreement in place, given the accounts do not currently comply with IAS 19 requirements in full. See [Appendix 2](#).

We have tested the accounting entries processed by management in relation to the actuarial valuation to confirm these are accurate and complete. We identified one misstatement being the reclassification of £5.607 million of IAS 19 costs from operating expenditure to be recognised as employee benefits within staff costs. This misstatement has been adjusted for within the final financial statements and has a net impact of £nil on the SOCNE. See further details in [Appendix 1](#). No further misstatements were identified. We have tested the data and assumptions used in the actuarial valuation and we have challenged the reasonableness of the rates applied. We have evaluated the competence, capability and objectivity of the scheme's actuary who represent management's experts under ISA 500.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Board and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2021/22 HM Treasury Financial Reporting Manual (FReM).
- We enquired of management and the Audit Committee, concerning the Boards' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Board's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Board's financial performance for the year and potential management bias in determining accounting estimates, especially in relation to the accrual in relation to IJB reserves (£19.049 million), FHS Practitioners accrual (£13.169 million) and the accrual in relation to a grievance raised by Unison in relation to Health Care Support Workers (£8.779 million). Our audit procedures and conclusion are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Board's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Board's control environment, including the policies and procedures implemented by the Board to ensure compliance with the requirements of the financial reporting framework.

Significant judgements

NHS Highland's financial statements include the following significant accounting judgements impacting on the annual accounts:

Significant judgement	Summary of management's approach	Audit Comments	Assessment
Assessment of Leases	<p>Leases are assessed under IFRS as being operating or finance leases, which determine their accounting treatment. The criteria for assessment are, to a certain extent, subjective, but a consistent approach has been taken through the use of a standard template which sets out the relevant criteria.</p> <p>As at 31 March 2022 obligations under operating leases amounted to £7.391 million, obligations under finance leases amounted to £1.317 million and total obligations under on-balance sheet PFI/PPP contracts were £74.956 million in total.</p>	<p>We are satisfied that the assessments of operating and finance leases have been appropriate and that disclosures have not been materially misstated.</p> <p>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 assets 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. However the audit team are satisfied that the accounting recognition is appropriate and that the omissions do not materially impact the financial statements. We have however raised this as a disclosure adjustments. <i>See Appendix 1.</i></p> <p>Furthermore, we note that management have identified leases as an area of significant judgement in the accounts. We do not consider this to be a critical judgement that has a significant risk of causing material adjustment to the carrying amount of assets or liabilities within the next financial year. Instead we would consider this application of accounting policy rather than areas of judgment in applying accounting policies. IAS 1 requires disclosure of significant judgements where there is a risk these could change materially over the next 12 months. While the financial statements cover those areas of critical judgement, there is an opportunity to enhance the disclosures made in accordance with IAS 1. The note should disclose the judgement being made and the impact this judgement has on the financial statements. We have raised this matter as a disclosure adjustment. <i>See Appendix 1.</i></p>	<p>We consider managements process to be appropriate and key assumptions reasonable.</p>

Significant judgement	Summary of management's approach	Audit Comments	Assessment
<p>Pension Liability for The Highland Council Pension Fund used by Social Care staff transferred to NHS Highland (Other non cash costs – Asset Transfer (Highland Council Adult Social Care Pension) £16.281 million credit to Other Reserve)</p>	<p>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. In accordance with Scottish Government Health and Social Care Directorates (“SGHSCD”) guidance, obligations under the defined benefit pension scheme are fully funded via Scottish Government funding in advance and therefore as a departure from IAS 19: Employee Benefits. The defined benefit obligations are not recognised as a long-term liability and instead recognised through other reserves as SGHSCD funding received in advance. Estimation of the liability to pay pensions for these staff depends on several complex judgements relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Management has disclosed that reliance is placed on significant details provided by the actuary of the pension fund to establish the value of this liability.</p>	<p>The valuation of the LGPS liability has been identified as a significant audit risk. See details of the audit procedures performed in response to this risk as well as details of our audit findings on page 19.</p> <p>As noted, the accounting for the LGPS within NHS Highland’s financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the SOFP and instead the impact of the liability is removed to other reserves. We have agreed with Scottish Government that this treatment is acceptable however as Scottish Government do not specifically direct NHS Highland to make the departure, the departure from IAS 19 is the judgement that NHS Highland have made within the financial statements, the resulting impact being that no net pension liability is recognised within the SOFP and instead the impact of the liability is removed to other reserves.</p> <p>As such we are satisfied that this is a significant judgement being made by NHS Highland however we note that there is an opportunity to enhance the disclosures made in accordance with IAS 1. The note should specifically disclose the judgement being made by NHS Highland and the impact this judgement has on the financial statements. We have raised this matter as a disclosure adjustment. See Appendix 1.</p>	<p>We consider managements process to be appropriate and key assumptions reasonable.</p>

Significant estimates

NHS Highland's financial statements include the following significant accounting estimates impacting on the annual accounts:

Significant estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property Plant and Equipment (Land and buildings, including dwellings - £383.494 million)</p>	<p>As at 31 March 2022, NHS Highland held PPE of £461.718 million including Land and Buildings (including Dwellings) of £383.494 million.</p> <p>Within Note 7 of the accounts the Board disclose that an annual valuation of 20% of all NHS Highland properties was carried out by their independent valuers, FG Burnett and Gerald Eve and that indexation is applied to those assets not subject to valuation.</p> <p>The net impact of the overall valuation was a net increase of £16.907 million which was credited to the revaluation reserve. Impairment of £6.523 million was charged to the Statement of Comprehensive Net Expenditure and Summary of Resource Outturn.</p> <p>Management has disclosed that the valuation reports have been used to inform the measurement of assets in the financial statements and that the valuer has exercised professional judgement in preparing the valuation and, therefore, this is the best information available to NHS Highland as at 31 March 2022.</p>	<p>The valuation of the land, buildings and dwellings has been identified as a significant audit risk. See details of the audit procedures performed in response to this risk on page 16.</p> <p>Having reviewed the disclosure in NHS Highland's financial statements for key sources of estimation in relation to property, plant and equipment we have concluded that although we agree with management that there may be a significant risk in relation to the PPE valuation estimate resulting in a material adjustment to the carrying amounts of PPE within the next financial year, we do not believe that this is sufficiently explained in the financial statements, and we do not therefore believe that the requirements of IAS 1 have been sufficiently met. We have raised a disclosure misstatement in Appendix 1 in relation to this matter.</p>	<p>We consider managements process to be appropriate and key assumptions reasonable.</p>

Significant estimates (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised we also requested further information from management in relation to the following material estimates (which have not been considered significant by management as described above):

- Depreciation (£16.112 million);
- Accrued income (£9.725 million);
- Accruals (£39.979 million);
- FHS Practitioners accruals (£13.169 million);
- Provisions – clinical and medical negligence (£17.186 million)
- Participation in CNORIS (£33.010 million)
- Provisions – pensions and injury benefits (£9.527 million)
- Commitments Under PFI Contracts – On Balance Sheet (£25.254 million).

Whilst not considered significant by management, included within the above material estimates were the following estimates that we consider to be significant by nature:

- **2020/21 carry forward of IJB reserves (£19.049 million)** – Scottish Government (“SG”) confirmed in February 2022 that they would allocate further funding to NHS Boards and Integration Authorities to meet COVID-19 costs and to support the continuing impact of the pandemic. SG also confirmed that where funding remained at year end 2021-22, this must be carried forward in an earmarked reserve for COVID-19 purposes, with use of these allocations to meet COVID-19 expenditure to be agreed by the IJB Chief Finance Officer and the NHS Board Director of Finance. Management’s year end 2021/22 carry forward accrual is amounts that NHS Highland have earmarked for future COVID-19 costs as instructed by SG. We have confirmed communication was issued by SG as described as well as well as having confirmed the year end IJB reserves of £19.049 million to published IJB Board minutes dated 18 May 22.
- **Unison claim accrual (£8.779 million)** – grievance raised by Unison in respect of members who are Health Care Support Workers Agenda For Change Band 2 employees but are working beyond the skills and competencies they have been evaluated on (Band 3). The estimated accrual is the anticipated liability for NHS Highland across North Highland and Argyll and Bute areas. Management’s estimate is based on individual named employees. We have obtained management’s detailed accrual calculation based on individual staff members and for a sample of staff members we have agreed information as per management’s calculation to payroll records. We have also agreed that we are satisfied with the increase in the accrual from £5.6 million at 31 March 2021 to £8.779 million at 31 March 2022. We have also agreed other assumptions used in management’s calculation to third party supporting documentation including the Agenda for Pay award for 2021-22, and information concerning other health boards involved in a similar grievance process with Unison members, as well as documenting the arrangements management have put in place to proceed with the processing of cases.

We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of the Board's accounting policies, accounting estimates and financial statement disclosures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.

Issue	Commentary
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the National Health Service (Scotland) Act 1978 (the Act), and directions thereunder. We have audited the elements of the Remuneration Report and Staff Report, as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation. The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers.
Governance statement	The Governance Statement is included within the Accountability Report. The Corporate Governance Report is set out on page 27 of the annual accounts. The report sets out how NHS Highland has been governed during 2021/22, including membership and organisation of its governance structures and how they support the achievement of the Board's objectives. The report includes the Directors' Report, the Statement of Board Members' Responsibilities and the Governance Statement and has been prepared in accordance with the FReM and NHS Scotland Manual for Accounts. Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The Governance Statement reflects the assurances and conclusions reached by the Board's Internal Audit function in year. We have nothing to report in respect of these matters.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.

Issue	Commentary
Written representations	<p>A letter of representation will be requested by the audit team of the Board, including specific representations in respect of the Group. Specific representations will be requested from management in respect of the accounting treatment of the pension liability for The Highland Council Pension Fund used by Social Care staff transferred to NHS Highland and the departure from IAS 19 and the FREM in relation to the pension scheme's liability.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Board meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management's assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>

Issue	Commentary
National Fraud Initiative	<p data-bbox="409 288 2107 512">The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including NHS Highland, received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud was required to be investigated by 30 September 2021 and the results recorded on the NFI system.</p> <p data-bbox="409 528 2107 632">As part of our audit work in the current year we considered the progress made by NHS Highland in investigating matches. The Board was given an Amber rating overall meaning the arrangements were deemed to be adequate however areas for improvement were identified as follows:</p> <ul data-bbox="409 647 2107 959" style="list-style-type: none"><li data-bbox="409 647 2107 839">• We noted that NHS Highland have demonstrated commitment to NFI for example timely submission of data and investigation of Matches, appropriate personnel are involved in the process, there is oversight from the Audit Committee with Counter Fraud updates being provided throughout the year including considering the Board’s progress with the participation of the NFI exercise. However, we recommend that the Board consider presenting and completing the self-appraisal checklist referred to in the 2018/19 NFI report.<li data-bbox="409 855 2107 959">• Overall case numbers appeared broadly consistent between the current exercise and the 2018/19 NFI exercise. However we note that the Board has not undertaken an exercise to understand movements within certain report types, e.g. where there has been a large increase/decrease of outcomes on certain report types such as pensions/creditors. <p data-bbox="409 975 1330 1008">An action has been raised in Appendix 2 in relation to this matter.</p>

Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified 4 significant wider scope risks in relation to Financial Management, Financial Sustainability, Governance and Transparency and Value for Money.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>Significant risk:</p> <p>At November 2021 NHS Highland had overspent against their year to date budget by £11.8 million and was forecasting an overspend of £19.6 million at 31 March 2022. Correspondence received by NHS Highland from Scottish Government has indicated that support would be provided to NHS Boards to deliver breakeven financial position on a nonrepayable basis, providing there is appropriate review and control at Board level. On this basis a breakeven position was being forecast by NHS Highland at 31 March 2022. A funding value had not yet been confirmed. Key areas of overspend include slippage of £11.9m forecast against the £32.9 million savings target set for 2021/22 and £7.4 million of overspend forecast for Acute Services, £5.3 million of which is in relation to Raigmore. We will consider the overall financial position reached by NHS Highland during 2021/22 and we will seek to understand the future financial implications of this.</p>	<p>We have assessed the Board's financial performance in year (page 12). NHS Highland delivered a break-even position in 2021/22, achieving a small surplus of £0.455 million against its Revenue Resource Limit.</p> <p>The surplus was largely achieved by an underspend of £6.657 million on Support Services (a result of this funding being allocated late in 2021/22) offset by overspends of £1.631 million in Highland Health and Social Care Partnership (largely driven by increased costs associated with Forensic Medical Examination services) and an overspend of £4.570 million on Acute Services (as a result of high locum costs which was required in order to continue to deliver services). £2.891 million of the overspend on Acute Services was within Raigmore.</p> <p>A breakeven position was also achieved against the Capital Resource Limit set. The COVID-19 pandemic continued to have both a financial impact on NHS Highland, as well as a service delivery impact during 2021/22, similar to other health boards across Scotland.</p>	<p>We note that NHS Highland has financial monitoring arrangements in place which provide clarity around the Board's financial performance and projected performance throughout the year.</p> <p>The COVID-19 pandemic continued to have both a financial impact on NHS Highland, as well as a service delivery impact during 2021/22, similar to other health boards across Scotland.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
Financial Management (Continued)		<p>Quarterly returns were submitted by the Board to Scottish Government in an agreed format during the year which detailed expenditure incurred by the Board as well as forecasting expenditure to the end of the financial year.</p> <p>Funding allocations were made throughout the year, with the final allocation received in January 2022. In addition to funding all costs associated with COVID-19, Scottish Government also provided funding to cover slippage on the Board's cost improvement programme. Similar funding packages were put in place nationally to ensure financial parity at 31 March 2022.</p> <p>In total Scottish Government provided a COVID-19 funding package of £88.861 million to NHS Highland during 2021/22. This included funding in respect of COVID-19 costs incurred in 2022/23 which are being managed by Argyll & Bute IJB, Scottish Government and Highland Council. The Financial Plan for 2021/22 required £32.900 million of savings to be delivered through the Cost Improvement Programme ("CIP"). Savings of £20.463 million were delivered by the Board in respect of this target in 2021/22, £2.865 million of which deemed to be recurring savings. The remaining £12.437 million of savings required was funded by the Scottish Government as part of the afore mentioned COVID-19 funding package.</p>	<p>NHS Highland delivered a break-even position as well as deliver £20.463 million of savings.</p> <p>Through the audit procedures performed we have not identified any significant risks in relation to NHS Highland's financial management arrangements.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
------------------------------	--	--	----------------------------------

Financial
Management
(Continued)

As part of our financial statements audit, we considered the arrangements in place for monitoring and scrutiny of financial performance in year, including oversight from Management and those charged with governance. This has included inquiry of Management and review of minutes, papers and other corporate publications.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
<p>Financial sustainability</p>	<p>Significant risk identified: NHS Highland have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures they are facing due to Covid-19. As identified above, a savings gap of £32.9 million was identified at the start of 2021/22 and slippage has been identified in relation to this savings gap however NHS Highland are not anticipating any brokerage requirement as Scottish Government has indicated that all health boards will receive funding to ensure financial balance in 2021/22. We will seek to understand the future financial plans for NHS Highland for 2022/23 and beyond including considering the extent to which savings delivered during 2021/22 represent sustainable recurring future savings.</p>	<p>Response to significant risk: A one year Financial Plan for 2022/2023 was submitted to Scottish Government in March 2022 and presented to the NHS Highland Board in May 2022. We reviewed the plan for 2022/23 including the key assumptions and cost pressures which have been identified. The Financial Plan identifies an initial budget gap of £42.272 million with an expected CIP programme delivery of £26.000 million savings planned. This left an unfunded budget gap of £16.272 million at the start of 2022/23. Discussion around this unfunded element are ongoing with Scottish Government. We note that whilst NHS Highland are committed to taking all steps necessary to minimise this gap, there is an expectation that an element of brokerage will be required. During 2020/2021 and 2021/2022 Scottish Government provided financial support in respect of slippage against NHS Highland's Cost Improvement Programme recognising the impact that COVID-19 had on delivery. Recent correspondence from SG indicates that funding will not be available for any slippage against the CIP in 2022/2023. The CIP, which is still being developed, will be challenging and the risk around delivery should be recognised. Delivery of savings is managed through the Programme Management Office who report progress weekly to the Financial Recovery Board.</p>	<p>NHS Highland have considered their financial sustainability for 2022/23, in line with Scottish Government requirements, incorporating key assumptions and risks. In addition, the impact of Covid-19 on financial plans in future years has been considered. The Board has acknowledged that the CIP developed for 2022/23 is challenging and that the risk around delivery should be recognised. Furthermore, recent communication from SG suggests that funding will not be available for any slippage against the CIP in 2022/23. The 2022/23 Financial Plan currently includes an unfunded budget gap of £16.272 million and NHS Highland expect that an element of brokerage will be required.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
Financial sustainability (continued)		The budget for 2022/23 has been built on the basis of a baseline uplift of 3%, amounting to £21.2 million. This includes £3.1 million to meet the required 0.8% of NRAC parity.	We recommend that NHS Highland continue to look to identify ways in which this gap can be reduced and where that is not deemed to be possible discussions should also continue with Scottish Government to inform them of any potential brokerage requirements as soon as practicable. We have raised an action point in relation to this matter, see Appendix 2 .

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>The Healing Process was an agreed action arising as a result of the Sturrock Report and was agreed by NHS Highland in March 2020. Registration opened in May 2020 and closed in March 2021. We reviewed the Healing Process as part of our prior year Wider Scope work and we will once again consider the progress made by NHS Highland during 2021/22 in relation to this area.</p> <p>NHS Highland are currently developing their Culture plan and priorities for 2022 and beyond. Going forward the expectation is that progress against this plan will be monitored and reported and it will receive oversight from appropriate groups and committees within NHS Highland, as well as input from colleagues and leaders across the organisation. We will consider the progress made by NHS Highland during 2021/22 in relation to this area.</p>	<p>Response to significant risk:</p> <p>The Healing Process opened for registration in May 2020 and closed to new registrants on 31 March 2021, with 340 registrations received in total. At March 2022, 271 Independent Review Panel outcomes had been approved by the NHS Highland Remuneration Committee, which included;</p> <ul style="list-style-type: none"> • 232 recommendations for financial payment to be awarded amounting to £2.795 million; and • 116 apologies having been issued by the Chief Executive. <p>Funding has been provided by the Scottish Government to cover the cost of claims awarded and the set up and administration costs of running the process. NHS Highland estimate that on completion of the process, the total cost of claims will be approximately £2.954 million.</p> <p>Set up and running costs to date amount to £2.392 million. Further costs of administration will continue to be incurred in 2022-23 as the final cases are settled and the ongoing payments towards psychological therapies are processed.</p> <p>NHS Highland expect the process to close by July 2022, after which a final report will be made to the Board.</p>	<p>We note that NHS Highland have demonstrated their continued focus on Culture, including the Healing Process, during 2021/22.</p> <p>The Healing Process has continued to progress during the year and is expected to complete in July 2022. Payments have continued to be recommended and paid and apologies continue to be issued by the Chief Executive as recommended.</p> <p>From review of Board and Committee minutes and papers, we found that there was clear and transparent reporting in relation to both the Healing Process and Culture in general. In addition, independent insight and assurance has been sought from the Independent Review Panel and Internal Audit, reflecting NHS Highland's continued focus on assessment and improvement in these areas.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
Governance and transparency (continued)		<p>Response to significant risk (continued):</p> <p>NHS Highland have received three Organisational Learning reports to date from the Independent Review Panel, which have been reported to the Board and actions taken to address the findings made within are also being tracked. An Internal Audit also took place in relation to the Healing Process during the year which identified two grade 2 management actions (moderate risk exposure) as well as one grade 3 management action (high risk exposure) recommending NHS Highland to develop an information asset register for the Healing Process.</p> <p>The Culture Oversight Group has continued to meet throughout the year and has overseen the progress of the Culture programme and plans. The Culture programme introduced a new style dashboard report in March 2022 that outlines the Culture programme status and risks to support progress management. The dashboard reports on status, progress, risks and milestones and a summary of each of the following key areas: Values and Behaviours, Civility Saves Lives, Leadership & Management Development, Culture Metrics & Tools, People Processes and Wellbeing as well as the overall programme status. Going forward it is also planned that progress against wider actions linked to colleague surveys and reports by the Independent Review Panel of the Healing Process will also be monitored through the dashboard.</p> <p>The Culture Programme is currently reporting Green for delivery overall, with an amber status for Culture Metrics and Civility Saves Lives. The amber status for Culture Metrics is reflecting delays in key actions such as the development of the dashboard, due to lack of resource.</p>	We have not identified any further risks or significant deficiencies in relation to Culture, including the Healing Process.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
Governance and transparency (continued)		<p>Response to significant risk (continued):</p> <p>Resource has been recruited and is now in post and NHS Highland expect to make good progress in the coming weeks. Similarly the amber status for Civility Saves Lives is reflecting delays in the launch of the Civility poster campaign as well as a plan being agreed in relation to Promoting Professionalism.</p> <p>Later in 2022 NHS Highland expect to transition from a programme led approach into Culture being delivered as part of the work plan for its new People and Culture Directorate.</p>	

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit Conclusion
<p>Value for money Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified: Remobilisation Plans have been agreed between NHS Highland and Scottish Government, outlining agreed levels of monthly activity to support recovery from the Covid-19 pandemic. The core indicators reported against the Remobilisation Plan are set by Scottish Government and primarily reflect immediate challenges to bring services back online. We will review the progress made by NHS Highland in relation to the latest agreed Remobilisation Plan.</p>	<p>Response to significant risk: During 2021/22 the pandemic continued to impact on performance delivery.</p> <p>The Board agreed a one-year Strategy in support of its Remobilisation Plan in March 2021 entitled ‘Remobilise, Recover, Redesign: NHS Highland Strategic Direction 2021 – 2022’ which set out the Board’s vision, values and Board level objectives. In September 2021 the Board approved the development of a five-year strategic plan underpinning delivery of Scotland’s vision for achieving sustainable, quality health care services. Since September 2021, the Board has received frequent updates on progress with the development of the Strategy which is now expected to be fully endorsed by the Board in July 2022.</p> <p>The Board’s Remobilisation Plan Version 4 was approved by the Board in September 2021 and reviewed in January 2022. The Remobilisation Plan submitted to Scottish Government reflects the anticipated recovery of the health and care system through until April 2022. The Plan focuses on the areas agreed as priorities with the Scottish Government and includes information on 15 workstreams and associated projects to improve patient care and to transform services to ensure they are fit for purpose in the new context the NHS finds itself in. The Integrated Performance and Quality Report takes a cross system view of performance and has a particular focus on the Remobilisation Plan targets, reflecting the performance of NHS Highland in the context of remobilisation and the ongoing impact of COVID-19. The Remobilisation Plan has been agreed with the Scottish Government Health and Social Care Directorate. The component parts of the Remobilisation Plan are monitored regularly through the Highland Health & Social Care Committee and the Argyll & Bute Integration Joint Board, which provide assurance to the Board that the operational units are on track to deliver the key objectives.</p>	<p>We have not identified any further risks or significant deficiencies in relation to lead agency and partnership working arrangements within the Board.</p>

Other areas of focus

In accordance with Audit Scotland Planning Guidance, as part of our audit work in 2021/22 we consider the Board's arrangements for equality and fairness as well as considering the risk of fraud in procurement. We did not identify any significant wider scope audit risks in these areas. Utilising Audit Scotland's Best Value guidance we considered the arrangements at NHS Highland.

Risk of fraud in procurement

In accordance with Audit Scotland's planning guidance we considered the risk of fraud and corruption within the procurement function. Through our audit procedures performed we have not identified any significant risks or deficiencies in relation to NHS Highland's arrangements over fraud and corruption within procurement.

The NHS Highland Procurement Strategy 2022/23 has been prepared by the Head of Procurement and has been approved by the Finance and Resources Committee and has been published online. This is an interim procurement strategy to provide direction and focus for the year ahead as NHS Highland move out of the pandemic and look to remobilise, recover and redesign its services. A longer term strategy from 2023 onwards is planned and will be aligned to the future strategic and operational plans being developed by the Board.

Internal Audit performed a review of "Procurement and Tendering" which was reported to the Audit Committee in July 2021. 5 management actions were recommended with the following 3 actions remaining open:

- NHS Highland to publish its above regulated threshold contracts which are covered by a waiver in their contract register (Grade 2 – due 31 July 2022);
- NHS Highland to review the available data from all of its purchasing systems to identify and record limitations of each respective system to ascertain what scope there is for a) improving the quality of data held on these systems and b) exploring the options to extract data into a report or similar that would allow for greater management oversight and control (Grade 3 – due 31 July 2022); and
- NHS Highland to review the make up of all procurement activity (both centralised and devolved) within the board (including the Health and Social Care Partnerships) to ensure fitness for purpose and to develop an appropriate oversight regime going forward (Grade 3 – due 31 July 2022).

We have confirmed that these actions are being monitored by management and reported to the Audit Committee accordingly.

To comply with the Procurement Reform (Scotland) Act 2014 (The Act), NHS Highland is required to publish an annual Procurement Report detailing information on all regulated procurement activity. The latest version of the report, for the year ended 31 March 2021, is available online, with the report for the year ended 31 March 2022 expected to be published in June 2022.

Other areas of focus (continued)

Equality and fairness

In accordance with Audit Scotland's Code of Audit Practice and Audit Scotland Planning Guidance, as part of our 2021/22 external audit we considered the Fairness and Equality characteristics and the arrangements in place at NHS Highland.

NHS Highland published its Equality Outcomes and Mainstreaming Report in April 2021 summarising the progress towards achieving equality outcomes set in 2017, demonstrating how NHS Highland is working to meet Public Sector Equality and sets out new outcomes for 2021-2025. The report is published on the NHS Highland website and includes further details such as staff training delivered on equality related issues, employee data, gender pay gap and equal pay statement.

We have not identified any further risks or significant deficiencies in relation to equality and fairness arrangements within NHS Highland.

Climate change

The Climate Change (Scotland) Act 2009 originally set out measures adopted by the Scottish Government to reduce emissions in Scotland by at least 80% by 2050. The Climate Change (Emissions Reductions Targets) (Scotland) Act 2019 amended this longer-term target to net-zero by 2045, five years in advance of the rest of the UK. In 2020 'The Climate Change (Scotland) Amendment order came into force to reflect this and now requires NHS Boards to report on their progress in delivering their emission reduction targets. All designated Major Players, of which NHS Highland is one, are required to submit an annual report to Sustainable Scotland Network detailing compliance with the climate change duties imposed by the Act and the Amendment order. The information returned by the Board is compiled into a national analysis report, published annually and superseding the prior requirement for public bodies to publish individual sustainability reports. The latest version of the report, NHS Highland's Climate Change Report 2020/21, is available for review on the Sustainable Scotland Network site, with the report for the year ended 31 March 2022 expected to be published in June 2022. The above is disclosed within the annual accounts for 2021/22. We have not identified any risks or significant deficiencies in relation to the reporting by NHS Highland on climate change.

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no material uncorrected misstatements to the financial statements identified during our audit.

Impact of adjusted misstatements

We can confirm that there were 5 adjusted misstatements greater than £250,000 during the 2021/22 audit.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Being removal of inflated income recognised within NHS Scotland income		
Dr Income from other NHS Scotland bodies	713	
Cr Income from NHS non-Scottish bodies	(37)	
Cr Income from Scottish Government	(42)	
Cr Other Income	(64)	
Cr Other Operating Expenditure	(570)	
Reclassification of IAS 19 entries between operating expenditure and staff costs with costs falling within scope of employee benefits:		
Dr Staff costs	5,607	
Cr Operating expenditure	(5,607)	
Late adjustment to testing kits as notified by NSS		
Dr Drugs and medical supplies expenditure	10,464	
Cr Donated income and asset additions	(10,464)	
Revised CNORIS participation disclosure as advised by SG		
Dr Participation in CNORIS < 1 year		111
Dr Participation in CNORIS > 1 year		334
Cr Other healthcare expenditure	(445)	
NHS Highland's reclassification from short term other payables to long term payables		
Dr Other payables < 1 year		3,831
Cr Other payables > 1 year		(3,831)
Overall impact	(445)	445

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Adjustment for A&B staff included within both A&B & NHS H Unison accrual Dr Other payables < 1 year Cr General fund		293 (293)
Adjustment to Other Comprehensive Income arising from the revised Actuary report dated May 2022 Dr Other reserves Cr Other public sector bodies receivables > 1 year		1641 (1,641)
Judgemental audit adjustment - projected adjustment to the FHS Accrual as a result of post year-end actuals: Dr Drugs and medical supplies expenditure Cr FHS Accrual	879	(879)
Judgemental audit adjustment – projected misstatement identified in trade payables in relation to prepayments not yet paid for pre year end (based on actual adjustment of £1,223,000) : Dr Trade payables Cr Prepayments		3,729 (3,729)
Judgemental audit adjustment – projected overstatement in accruals for expenditure not yet incurred. Extrapolated judgemental audit adjustment (based on actual adjustment of £9,993): Dr Accruals Cr Operating expenditure		1,402 (1,402)
Judgemental audit adjustment – projected overstatement of expenditure recorded in 2021/22 relating to 2020/21. Extrapolated judgemental audit adjustment (based on actual adjustment of £5,600): Dr Operating expenditure Cr Reserves (General Fund)	976	(976)
Overall impact	453	(453)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted
Pension Costs	Incorrect descriptor used: Return on the fund assets as part of the note. This should be updated to Interest income.	Yes
PPP/PFI Disclosures	Service elements due in future periods for Easter Ross, Mid Argyll and Tain Hub require updating to reflect current year model.	Yes
Related Parties	No disclosure was made to include other bodies falling under the Scottish Government umbrella. Our review of material bodies highlighted a number of health boards for which there were material transactions during the year, which NHS Highland should disclose in their related parties note.	Yes
Remuneration report	The entity should ensure all sections are marked "subject to audit" where required by the FReM. The entity should ensure adequate descriptions are provided for unusual figures within the remuneration tables, via notes beneath the table.	Yes
Remuneration Report	Adjustment to remuneration bandings of the Medical Director and two non-executive directors within the remuneration report which were recorded erroneously. Adjustment to accrued pension and lump sum bandings of the Chief Executive Officer within the remuneration report which were recorded erroneously.	Yes
Consolidated Statement of Comprehensive Net Expenditure	The wrong title had been used in the primary statement within the initial draft accounts, being Statement of Consolidated Comprehensive Net Expenditure.	Yes

Disclosure	Auditor recommendations	Adjusted
Trade and other receivables	<p>Note 9 stated that the carrying amount of short term receivables approximates their fair value – but the statement regarding fair value is only applicable to financial instruments and not all the short term receivables are financial instruments (VAT and prepayments are not and there may be other items that are statutory rather than contractual). This should be corrected so that it is clear to readers of the accounts.</p> <p>Note referenced the fair value of receivables however this should have been the carrying value as not all of these receivables are financial instruments and thus are not held at fair value. This should be corrected so that it is clear to readers of the accounts.</p>	Yes
Investments	It was not initially clear what value is being reported at cost less impairment. This should be corrected so that it is clear to readers of the accounts.	Yes
Cash and cash equivalents	Note 11 reports the consolidated (not board) cash balances however this was not clear in the initial set of accounts. This should be corrected so that it is clear to readers of the accounts.	Yes
PPE - Note 7 a and c	Total value of PFI and PPP Contracts was incorrectly disclosed in the accounts.	Yes
Consolidated Statement of Financial position	The prior year brought forward balance for Investments in associates and Joint ventures were incorrectly classified under Intra Group Adjustment. This should be held under the IJB.	Yes
Review of Accounts (General)	A number of casting errors, formatting issues, page referencing and linking errors were identified as part of our review of the financial statements. These were raised and processed by management where necessary.	Yes
Accounting Policies - Authority	Initial set of accounts referred to IFRS as adopted by the EU. This is outdated and reference should be made to the United Kingdom in light of the UK's exit from the EU.	Yes

Disclosure**Auditor recommendations****Adjusted**

Significant estimates/Significant judgements

NHS Highland currently disclose significant estimates and judgements within Note 29 to the financial statements. However, as per IAS 1 there should be distinction between material estimation uncertainty and significant judgements. In addition, the disclosed estimates/judgements did not always meet the definition of a significant estimate or judgement or the disclosure requirements of IAS 1. From review of the estimates and judgements disclosure, there are a number of disclosures the audit team would not consider to be either a 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

- the disclosures relating to negligence costs, employee benefit accrual and injury benefit provisions do not meet the requirements of IAS 1: 125 as they do not appear to be items where there is a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year;
- disclosures do not make it clear what assets or liabilities are affected and their carrying amount, do not enable the reader to understand the nature of the assumption or estimation uncertainty and do not provide a clear explanation that pinpoints the source of the uncertainty, do not show how the assumptions impact on the value of the asset/liability and do not provide information about sensitivity of the carrying amounts (to methods, assumptions, estimates etc);
- disclosure about the net pension liability appears to describe the accounting policy;
- with regard to the LGPS, the disclosure in Note 29 refers to underlying assumptions that may give rise to significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, but this is not sufficiently explained, there is no sensitivity analysis regarding these assumptions and the disclosures required by IAS 19 are not included in the Note 19 Pension Costs.

Partly, with unadjusted elements not considered material to the accounts.

Disclosure	Auditor recommendations	Adjusted?
Property, Plant and Equipment	<p>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.</p> <p>There is no mention within Note 7 of the accounts to indexation being applied to assets not subject to a formal valuation.</p> <p>Reference is made to the indexation of assets under construction. This is not permitted under the accounting framework with assets under construction to be held at cost until the asset is brought into use and then subject to subsequent measurement involving valuation and depreciation etc. We understand that the Board in practice does not index its AuC and therefore propose that this inference is removed from the accounting policies disclosed.</p>	Partly, with unadjusted elements not considered material to the accounts.
Financial instruments - Assets	<p>While consistent with NHS manual for Accounts 2021/22, we noted that the Impairment of financial assets section incorrectly states that the provision for impairment of financial assets on the basis of expected credit loss does not reduce the carrying amount of the asset in the SoFP. Secondly, the accounting policy for impairment does not explain the simplified approach to impairment under IFRS 9 that is mandated by the FReM, any ruling about the impairment of balances with govt or other health bodies (if applicable) & how Expected Credit Loss is determined in accordance with IFRS 9, distinguishing as necessary between different methods used for different classes of financial asset. Further the disclosure in the Recognition and measurement section for FVOCI does not reflect the requirements of IFRS 9 as the terminology is out of date.</p> <p>Note 22 reports the classification of financial assets and reports £38.595m of trade and receivables and cash balances as FV through OCI. This classification is not correct and is not in accordance with IFRS 9 and the FReM. Assets of this nature would be expected to be classified and measured as financial assets at amortised cost. A similar error existed in prior year and for both board and consolidated figures.</p> <p>Note 22c states "The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value." This wording is incorrect. the carrying value of the trade receivables is reported net of any expected credit loss under IFRS 9.</p>	Partly, with unadjusted elements not considered material to the accounts.

Disclosure	Auditor recommendations	Adjusted?
Pension fund arrangements	<p>The movement in the Statement of Comprehensive Consolidated Net Expenditure requires updating to use appropriate terminology in accordance with IAS 19 to describe the actuarial movements and pension costs through the financial statements. The defined benefit disclosures also do not include required disclosure around sensitivity analysis, asset management strategy or weighted average duration of liabilities.</p> <p>The departure from IAS 19 should be sufficiently explained within the accounts.</p>	No, however not considered material.
Financial instruments - Liabilities	<p>The balance of payables includes the annual leave accrual of £7.545m. Although we recognise this is the view taken in the NHS Accounting Manual, this is not in our view a financial instrument as it is not settled by the transfer of cash but by the employee taking the annual leave. Furthermore the reported balance excludes £13.208m of payables with other NHS Scotland Board.</p> <p>Applies for both current year and for prior year and for both board and consolidated disclosures</p>	No, however not considered material.
PP/PFI Disclosures	<p>PFI obligations are measured at current value being the present value of 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 assets are recognised at 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. However we do not deem this to be material to the financial statements.</p>	No, however not considered material.
Accounting policies - IFRS 15	<p>While consistent with NHS Scotland Manual for Accounts, accounting policy do not explicitly refer to accounting requirements under IFRS 15 and no distinction is made for the different operating segments reported by the Board.</p>	No, however not considered material.

Disclosure	Auditor recommendations	Adjusted?
Accounting Policies - Intangible Assets	While confirmed this is consistent with NHS manual for accounts. We note that it is not clear in the policy whether the assets that are being held for service potential are eventually being used in business. Also, the valuation for these 'operational assets should refer to current value not fair value in accordance with the FREM's adaptation to IAS 38 i.e. following initial recognition, intangible assets are carried at current value in existing use by reference to an active market, or, where no active market exists, at the lower of depreciated replacement cost (modern equivalent assets basis) and value in use where the asset is income generating. Further, Note 6a reports NBV of £1.7m – there is no indication however that the measurement is on the basis described in the policy, no revaluation has taken place and there is no explanation that amortised historic cost is considered to be a proxy for this measurement basis and why this would be appropriate.	No, however not considered material.
Accounting Policy - Leasing	Policy says finance leased assets are valued at fair value whereas assets which are in use and held for their service potential (i.e. operational assets) should be measured at current value in existing use.	No, however not considered material.
Contingent liabilities	No disclosure of a contingent liability in relation to prosecution by Crown in relation to identified breach of s.3 of HS Act (1974) following HSE investigation. In our view there is an obligation arising from this case as the outflow is probable, although the Board does not yet have reliable estimate for the prosecution settlement. The conditions for disclosure as a contingent liability have been met.	No, however not considered material
Consolidated Statement of Comprehensive Net Expenditure	<p>Items appearing in other comprehensive net expenditure should be split between those that will not be/ may be reclassified to 'profit/ loss'.</p> <p>IAS 1 : 82 requires that the SOCNE include line items that present interest revenue and finance costs. These are not separately reported. We would expect to include the net interest on the net defined benefit liability /(asset).</p>	No, however not considered material

Disclosure	Auditor recommendations	Adjusted?
Other operating expenditure - Note 3b	Material items of expense have not been separately disclosed and are included within Other Operating Expenses. In line with the NHS Accounting Manual, we would expect material items to have their own separate line, e.g. depreciation. This is not considered material to the accounts given that these amounts are separately referred to within Note 7 of the accounts.	No, however not considered material.
Trade and other receivables - Note 9	Refers to provision for impairment and footnote refers to 'no future credit risk provision required in excess of normal provision for doubtful receivables'. This should be expected credit loss allowance in accordance with IFRS 9.	No, however not considered material.
Trade and other payables - Note 12	Includes fair value disclosures for finance leases and PFI contracts, but the details of the valuation technique, fair value hierarchy, etc., required under IAS 13 are omitted.	No, however not considered material
Consolidation of IJB	NHS Highland have used the Scottish Government excel template to produce the accounts. The investment in the IJB, is only shown in the consolidated line and not the Board only line. It should be disclosed, in Board, in accordance with the relevant group accounting requirements. This would have a nil impact on the Board's financial statements so on that basis NHS Highland have not amended. This is something Scottish Government will review, in the template and manual for 22/23.	No, however not considered material

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation	Agreed management response
<p>1. Programme of valuation of land and buildings</p> <p>NHS Highland’s accounting policies state that valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices (indexation) since the latest valuation. It was noted in the prior year audit that £36.997 million of assets had not been revalued for a period of more than 5 years. We recognise that management focused on ensuring that more of these assets were subject to formal valuation in the current year however as a result of our audit procedures in the current year we identified £27.331 million of assets that had yet to be revalued for a period of more than 5 years. Management confirmed that they are satisfied that as a result of indexation which has continued to be applied to these assets since their previous valuation, as well as through managements consideration of impairment in relation to assets which have not been professionally valued during 2021-22, that they are satisfied that these assets are not materially misstated or materially impaired. We recognise that these asset values are material however considering the controls NHS Highland have in place to consider the impairment of assets which have not been subject to formal valuation and given we are satisfied indexation has continued to be applied to these assets in the years since their last formal valuation, we are therefore satisfied that these assets are not materially misstated. However we recommend that management continue to review the procedures and controls they have in place to ensure to ensure that all land and building assets are reviewed as part of the 5-year programme of professional valuations going forward. As part of our audit work in this area we also identified 4 buildings and 4 plots of land recorded in the Fixed Asset Register (“FAR”) at NBV of nil that had previously been disposed of. Again we would recommend that management continue to review the controls they have in place to ensure that all disposals are reflected in the FAR at the time of disposal. A management action has been raised in Appendix 2 in relation to this matter</p>	<p>Management response: To be reviewed with the Valuer to ensure clear guidance, annually, to meet the 5 year programme.</p> <p>Action owner: Head of Finance(Central)</p> <p>Timescale for implementation: February 2023</p>

Recommendation

2. Review of valuation reports

Having reviewed the initial valuation report that NHS Highland had received from its appointed valuers for the 2021-22 valuation, the audit team identified errors within the detail of the valuation report in relation to the valuation of 7 assets. The errors themselves were highly immaterial and did not impact on the valuation postings to NHS Highland's asset register and annual accounts. The errors were corrected and an updated valuation report was issued by the Board's valuers however we recommend that management ensure that valuation reports are adequately reviewed upon receipt and that where errors are identified, these are reported to valuers accordingly

Agreed management response

Management response: Review process to be set up for 2022/23

Action owner: Head of Finance(Central)

Timescale for implementation: March 2023

3. National Fraud Initiative

As part of our audit work in the current year we considered the progress made by NHS Highland in investigating matches. The Board was given an Amber rating overall meaning the arrangements were deemed to be adequate however areas for improvement were identified as follows:

- We noted that NHS Highland have demonstrated commitment to NFI for example timely submission of data and investigation of Matches, appropriate personnel are involved in the process, there is oversight from the Audit Committee with Counter Fraud updates being provided throughout the year including considering the Board's progress with the participation of the NFI exercise. However, we recommend that the Board consider presenting and completing the self-appraisal checklist referred to in the 2018/19 NFI report.
- Overall case numbers appeared broadly consistent between the current exercise and the 2018/19 NFI exercise. However we note that the Board has not undertaken an exercise to understand movements within certain report types, e.g. where there has been a large increase/decrease of outcomes on certain report types such as pensions/creditors.

Management response: Self Appraisal to be undertaken during 2022/23

Action owner: Director of Finance

Timescale for implementation: December 2022

Recommendation

4. Financial Sustainability

NHS Highland have considered their financial sustainability for 2022/23, in line with Scottish Government requirements, incorporating key assumptions and risks. In addition, the impact of Covid-19 on financial plans in future years has been considered.

The Board has acknowledged that the CIP developed for 2022/23 is challenging and that the risk around delivery should be recognised. Furthermore, recent communication from SG suggests that funding will not be available for any slippage against the CIP in 2022/23.

The 2022/23 Financial Plan currently includes an unfunded budget gap of £16.272 million and NHS Highland expect that an element of brokerage will be required.

We recommend that NHS Highland continue to look to identify ways in which this gap can be reduced and where that is not deemed to be possible discussions should also continue with Scottish Government to inform them of any potential brokerage requirements as soon as practicable.

Agreed management response

Management response: This work is ongoing within Board and nationally. All Boards are looking at how they can use financial and technical flexibilities to reduce the in year burden as well as seeking means to reduce covid related costs.

Action owner: Deputy Director of Finance

Timescale for implementation: March 2023

5. Compliance with IAS 19 and pension accounting entries

Scottish Government confirmed NHS Highland's accounting treatment via email, with the audit team, for 21/22 which was similar to prior year. Given NHS Highland do not comply fully with IAS 19 it is recommended NHS Highland discussion with Scottish Government whether a formal amendment to the Accounting Direction for NHS Highland is required. If not, a more formal sign off should be in existence between NHS Highland and Scottish Government to support and justify the non-compliance with IAS 19.

Management response: To discuss and agree with Scottish Government for the 2022/23 audit.

Action owner: Director of Finance

Timescale for implementation: March 2023

3. Follow up of 2020/21 recommendations

We set out below our follow up of our 2020/21 recommendations:

Review of Journals

Through audit procedures performed, we noted that there is no formal journal review process in place and that journals are not being reviewed in a consistent manner across Finance.

We recommend that a formal journal review policy is drafted and approved, and that management review journals posted using an agreed, risk based approach which is adopted across all areas of Finance. Spot checks should be performed to confirm that journals are being reviewed in line with the agreed policy.

Responsible officer: Head of Financial Services

Initial management response: Policy to be developed and agreed.

Timescale for implementation: October 2021

Follow up: OPEN. Review yet to be undertaken – revised date for policy to be agreed by October 2022.

Programme of professional valuations (land and buildings)

NHS Highland's accounting policies state that valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. It was noted as a result of our audit procedures that approximately £36 million of assets had not been revalued for a period of more than 5 years. Management confirmed that they are satisfied that these assets are not materially misstated or impaired and we are satisfied as a result of our audit procedures that these assets have not been materially misstated within the Annual Accounts, however we recommend that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the 5-year programme of professional valuations going forward, in line with their accounting policy.

Responsible officer: Deputy Director of Finance

Initial management response: A thorough review of assets to be valued at each stage in the 5 year valuation cycle will be undertaken to ensure that all land and buildings assets are revalued within the period. We will continue to identify assets where the value may be materially affected by significant work, unforeseen events, outstanding maintenance or obsolescence and highlight the need for such assets to be part of the revaluation schedule.

Timescale for implementation: March 2022

Follow up: OPEN. Similar to the prior year audit, the audit team noted in the current year audit that there are still no formal terms of engagement in place between NHS Highland and its appointed valuers. The RICS Red Book states that this is a mandatory standard, with the details outlined within the Global Standards - VPS 1. It was noted that the original contract had expired and been extended on a rolling basis. This rolling extension, as well as subsequent correspondence between the appointed valuers and the Board may cover the majority of the minimum requirements for a terms of engagement document but the legislation is clear that, whilst the precise format of the terms of engagement may vary, valuers must prepare written terms of engagement for all valuation work completed. We recommend that going forward terms of engagement are prepared, reviewed and signed as agreed for all valuation work completed by appointed valuers. We note that our external valuer confirmed that there was no reason to suggest that the valuation process had not been completed to an adequate standard however we recognise that there is a requirement for formal terms of engagement to be written and agreed, in order that the process/requirements can be understood by someone with no prior knowledge of the subject assets, nor of the valuation process.

Professional valuers and terms of engagement

It was noted through audit procedures performed that there are no formal terms of engagement in place between NHS Highland and its appointed valuers of land and buildings. The RICS Red Book states that this is a mandatory standard, with the details outlined within the Global Standards - VPS 1. It was noted that the original contract had expired and been extended on a rolling basis. This rolling extension, as well as subsequent correspondence between the appointed valuers and the Board may cover the majority of the minimum requirements for a terms of engagement document but the legislation is clear that, whilst the precise format of the terms of engagement may vary, valuers must prepare written terms of engagement for all valuation work completed.

We recommend that going forward terms of engagement are prepared, reviewed and signed as agreed for all valuation work completed by appointed valuers.

Responsible officer: Director of Finance

Initial management response: A review of the existing terms of engagement will be undertaken with potential to go out to tender for 2021/22.

Timescale for implementation: January 2022

Follow up: CLOSED. Recommendation has been superseded by current year Action Point 2.

National Fraud Initiative (“NFI”)

The matches for the NFI exercise were released in January 2021. Management have confirmed that resource has yet to be identified to review the matches and for progress to be reported to the Audit Committee. Over 6,000 matches have been identified and reported to the Audit Committee in March 2021. Management have confirmed that matches will be cleared by September 2021, however given the limited progress made to date we recommend that work in relation to this exercise is prioritised and starts immediately in order that the September 2021 deadline can be met by the Board.

Responsible officer: Fraud Liaison Officer

Initial management response: The NFI work will commence following completion of the annual accounts process for 2020/21.

Timescale for implementation: September 2021

Follow up: CLOSED. Recommendation has been superseded by current year Action Point 4.

4. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

Long term receivables

NHS Highland recoup part of the costs incurred in the delivery of residential care services through amounts collected from the sale of a client'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.

Responsible officer: Head of Area Accounting

Initial management response: Basis to be reviewed during 2020/21.

Timescale for implementation: March 2021.

Follow up 2020/21: OPEN - Further work has yet to happen but this will be reviewed in 2021/22.

Revised implementation date: March 2022

Follow up 2021/22: CLOSED – Accounting for the income from sale of assets to pay for social care costs has been reviewed. Regular reporting of charging orders over properties done monthly, with full legal documentation set up for these properties.

Financial Management and Sustainability

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 and Retention Strategy currently under development which intends to build a resilient workforce with the right skills in the right locations.

Responsible officer: Director of HR (Strategy), Director of Finance (Workstream)

Initial 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.

Timescale for implementation: March 2021

Follow up 2020/21: OPEN - Covid-19 demands increased the Boards requirements for locum and supplementary staffing and delayed plans for strategy development. However, the Board's financial recovery programme continued to deliver in both Medical and NMAHP workforce activity. Progress has been made in recruiting permanent colleagues in Medical and Nursing Workforce, despite the impact of Covid-19. The Board have filled 21 hard to fill consultant positions in the last year, including in the RGH's as well as 62 newly qualified nurse and midwife roles in 2020/21. The Board also took management of locums back in house in October 2020 to better control spend and rates Turnover has reduced consistently from 10.31% in April 2019 to 7.91% in Feb 2021.

NHS Highland has established a Workforce Board, with workstreams established to take forward development of the recruitment and attraction strategy, as well as retention and succession plan. Establishment reviews and a major NMAHP recruitment campaign will further build on progress in 2021/2 and capitalise on the increased applications to NHS Highland which the Board have seen during 2020/21.

Revised responsible officer: Director of HR (Strategy and Workforce), Head of PMO (finance programme)

Revised implementation date: December 2021.

Follow up 2021/22: Open. Continuing review of dependencies on locums is undertaken and has been included in preparation of the Workforce Strategy due for submission to Scottish Government by July 2022.

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.

Responsible officer: Director of HR

Initial management response: Agreed.

Timescale for implementation: March 2021

Follow up 2020/21: OPEN - We have initiated a succession planning workstream as part of our workforce board and the Director of HR is attending the national group recently established to look at this across the Health and Social Care system. We would hope to have our first round of succession plans in place by Dec 2021, based on the tools and approaches these bring up. During 2020/21 we were highly successful in attracting and filling many senior leadership roles with a substantial interest in working in NHS Highland, which our plan will build on.

Revised implementation date: December 2021.

Follow up 2020/21: OPEN. Our progress with this has been impacted by the significant level of systems pressures experienced, particularly since late 2021, but we have continued to attract experienced senior and executive leaders to NHS Highland over this time. We complete the full year performance appraisals for the executive and senior manager cohort for 2021/2 in June 2022 and we will then commence our succession and talent assessment, using this robust assessment as the basis for conversations. We expect this to be completed by end October 2022.

4. Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations:

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.

Responsible officer: Director of Finance

Management's follow up response in 2019/20: 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.

Revised implementation date: March 2021

Follow up 2020/21: OPEN - No significant further work has happened on this as yet but will be reviewed in 2021/22

Revised implementation date: March 2022

Follow up 2021/22: OPEN. No significant further work has happened on this as yet but will be reviewed in 2022/23.

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.

Responsible officer: Board Secretary

Management's follow up response in 2019/20: 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.

Revised implementation date: March 2021

Follow up: OPEN - NHS Highland has made progress in implementing the Blueprint for Good Governance Action Plan throughout 2020/21. As at April 2021, 10 of the 14 Actions are now fully complete, with the 4 remaining outstanding actions being assigned an Amber status.

Revised implementation date: March 2022

Follow up 2021/22 – CLOSED. Actions now completed

5. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	164,480
Pooled costs	17,830
Contribution to Audit Scotland costs	7,840
Contribution to Performance Audit and Best Value	Nil
2021/22 Fee	190,150

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). 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.

Fees for other services

Service	Fees £
We confirm that for 2021/22 we did not receive any fees for non-audit services	Nil

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

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 Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

6. 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	•	•
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	•	•
Views about the qualitative aspects of NHS Highland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2022 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.