

NHS Highland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Highland
February 2024

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Introduction

Summary of planned audit work

1. I, Claire Gardiner, have been appointed by the Auditor General for Scotland as external auditor of NHS Highland for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas
- consideration of Best Value arrangements.

Respective responsibilities of the auditor and NHS Highland

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and NHS Highland. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at NHS Highland. In doing this, we aim to support improvement and accountability.

NHS Highland responsibilities

6. NHS Highland is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view.

7. NHS Highland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. My team and I aim to add value by:

- tailoring audit work to the circumstances of NHS Highland and the audit risks identified;
- being constructive and forward looking;
- providing independent conclusions
- attending meetings of the Audit Committee; and
- recommending and encouraging good practice.

9. In so doing, we will help NHS Highland promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating NHS Highland's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Highland and its group are set out below.

Exhibit 1

2023/24 Materiality levels for NHS Highland and its group

Materiality	Amount
<p>Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Highland's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2022/23.</p>	£18 million

Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality. £12.6 million

Reporting threshold (i.e. clearly trivial): We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Highland, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Perform focussed testing of accounting accruals and prepayments.
<p>2. Accounting for service concession arrangements</p> <p>The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements. NHS Highland must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments and ensure that the financial statements accurately reflect the impact of the revised IFRS 16 accounting arrangements.</p>		<ul style="list-style-type: none"> • Assess NHS Highland's arrangements for adopting this new accounting requirement. • Review detailed working papers to support the evaluation and assess the conclusions reached by NHS Highland. • Assess the adequacy of NHS Highland's financial statements disclosures regarding service concession arrangements.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
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Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as most income is provided by the Scottish Government and other public bodies and is easily verified to external sources.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk as the main expenditure streams of NHS Highland are in low-risk areas (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale.

20. We have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

22. The areas of specific audit focus are:

- Estimation in the valuation of other land and buildings:** NHS Highland hold land and buildings with a NBV of £428 million as at 31 March 2023. These assets are revaluated on a five-year rolling basis by external valuers. Valuations are based on specialist and management assumptions and small movements in these can result in material changes to valuations. There is also the risk, for those assets not subject to revaluation in-year, that the carrying value does not reflect current value. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and asset values are free from material misstatement.

- **Pension liabilities:** NHS Highland is in a unique position in recognising a pension fund liability for social care staff who transferred from Highland Council with membership of the Local Government Pension Scheme. NHS Highland use an actuary to provide an estimate of the liability in line with IAS 19, however, there is a departure from the requirements of IAS 19 as the pension liability impact is removed to other reserves. The subjectivity around the actuarial estimates and the departure from accounting standards increases the risk of misstatement. We will review the documentation in place to support the accounting treatment and evaluate the reasonableness of the actuary.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

25. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements* (including the work of component auditors) to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

26. NHS Highland has a group which comprises component entities, including Highland Health Board Endowment Funds and Argyll and Bute IJB. The audits of the financial information of the components are performed by other auditors.

27. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

28. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

29. In summary, the four wider scope areas are:

- **Financial management:** means having sound budgetary processes and arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** means the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which NHS Highland has shown regard to financial sustainability and is planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership, and governance:** Health Boards must have a clear vision and strategy and work together with partners and communities to improve outcomes and set priorities for improvement. The Executive Team is key to driving the strategic vision and delivering outcomes. We are aware that changes in leadership increase the risk of instability within organisations and we will consider the support in place for the incoming Chief Executive and the impact on governance at NHS Highland.
- **Use of resources to improve outcomes:** Health Boards must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how NHS Highland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

30. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability and delivery of outcomes</p> <p>NHS Highland has developed a three year financial plan for 2023/24 to 2025/26 which identifies a cumulative funding gap of £69 million in 2023/24 rising to £74 million in 2025/26.</p> <p>NHS Highland has developed a Savings Programme and the Sustainability and Value Programme initiatives have been reviewed with estimates of opportunities allocated across operational areas. A savings/ cost improvement/ cost reduction programme of £29 million is proposed for 2023/2024 but this will only bridge 42% of the projected funding gap for one year.</p> <p>There is a risk to financial sustainability and consequently the ability of NHS Highland to deliver services in the future.</p>		<ul style="list-style-type: none"> • Review the board's financial plans and transformation plans on an ongoing basis and consider whether appropriate arrangements are in place to address the underlying recurring deficit. • Attendance and observations at board and relevant committee meetings.

Source: Audit Scotland

31. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

32. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS Highland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

34. We will provide:

- an Independent Auditor's Report to NHS Highland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the Annual Report and Accounts
- NHS Highland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

35. [Exhibit 4](#) outlines the target dates for our audit outputs. We are aiming to issue the independent auditor's report by the statutory deadline of 30 June 2024 which will be challenging. We will continue to liaise with management over the timelines and adjust our plans accordingly should there be slippage in the agreed timetable.

Exhibit 4

2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	12 March 2024
Independent Auditor's Report	30 June 2024	25 June 2024
Annual Audit Report	30 June 2024	25 June 2024

Source: Audit Scotland

36. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

37. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

38. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

Key stage	Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	13 May 2024
Latest date for final clearance meeting with the Director of Finance	6 June 2024
Issue of draft Letter of Representation, proposed Independent Auditor's Report, draft Annual Audit Report	17 June 2024
Agreement of audited and unsigned annual report and accounts	25 June 2024
Issue of Annual Audit Report to those charged with governance	25 June 2024
Signed Independent Auditor's Report	25 June 2024

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of NHS Highland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The planned audit fee for 2023/24 is £238,430.

40. In setting the fee for 2023/24, we have assumed that NHS Highland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of NHS Highland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. I am independent of NHS Highland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of NHS Highland.

Audit Quality

46. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

47. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

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

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

50. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1: Your audit team

51. The audit team involved in the audit of NHS Highland have significant experience in public sector audit.

<p>Claire Gardiner Audit Director cgardiner@audit-scotland.gov.uk</p>	<p>Claire has over 19 years of public sector auditing experience. Claire has worked across the breadth of the public sector on financial audits.</p>
<p>Patricia Fraser Senior Audit Manager pfraser@audit-scotland.gov.uk</p>	<p>Patricia has considerable public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.</p>
<p>Kay Jenks Senior Auditor kjenks@audit-scotland.gov.uk</p>	<p>Kay has considerable experience in planning and delivering audits and will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.</p>

52. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

53. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

NHS Highland

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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