

NHS Highland

2022/23 Annual Audit Report



Prepared for the Board of NHS Highland and the Auditor General for Scotland
July 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 There was a delay in receiving the draft Annual Report and Accounts and a number of revisions were required to the Annual Report. We worked with the finance team to minimise the impact on the completion of the audit and agreed a revised sign off date three weeks after the target date.

Financial management and sustainability

- 3 After developing a recovery plan to offset increasing costs and undelivered savings, NHS Highland ended the year with a £0.4 million surplus against its revised Revenue Resource Limit.
- 4 NHS Highland continues to rely heavily on non-recurring savings and brokerage to deliver a balanced financial position. It is expected that further brokerage of £69 million will be required in 2023/24.
- 5 We identified a number of areas for improvement in the financial systems of internal control.
- 6 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 2026. It is crucial that medium to longer term solutions are identified to bridge the projected funding gaps which threaten the financial sustainability of the board.

Vision, leadership and governance

- 7 NHS Highland has appropriate governance arrangements.
- 8 We identified a number of weaknesses in cyber security arrangements and the general IT environment.
- 9 The work of the Independent Review Panel of the Healing Process is now concluded, and NHS Highland is committed to continuing to implement the recommendations and learn from the themes raised in the Panel's reports.

Use of resources to improve outcomes

- 10** The NHS Highland annual delivery plan has a series of actions to address backlogs caused by the Covid-19 pandemic and restore performance levels but there are a number of challenges affecting delivery of key projects including workforce, infrastructure and financial pressures.
- 11** Appropriate arrangements are in place for monitoring and reporting performance across the board.
- 12** NHS Highland has not formally reviewed arrangements to demonstrate how it is achieving Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS Highland. The scope of the audit was set out in an Annual Audit Plan presented to the 2 May 2023 meeting of the Highland NHS Board Audit Committee (the Audit Committee). This annual audit report comprises:

- significant matters arising from an audit of NHS Highland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of NHS Highland (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.

Audit appointment from 2022/23

3. I, Claire Gardiner, have been appointed by the Auditor General as auditor of NHS Highland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Highland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Highland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Highland from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £224,840 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. We add value to NHS Highland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

There was a delay in receiving the draft Annual Report and Accounts and a number of revisions were required to the Annual Report. We worked with the finance team to minimise the impact on the completion of the audit and agreed a revised sign off date three weeks after the target date.

Audit opinions on the annual report and accounts are unmodified

11. The board approved the annual report and accounts for NHS Highland and its group for the year ended 31 March 2023 on 24 July 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the revised performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £22 million

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors

set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£22 million
Performance materiality	£13 million
Reporting threshold	£250,000

Source: NHS Highland 2022/23 Annual Audit Plan

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting the low number of significant errors in the prior year and that majority of recommendations in recent years have related to wider dimension risks.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

18. The [Code of Audit Practice](#) also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Unaudited accounts</p> <p>We received the first draft of the Annual Report and Accounts on 17 May 2023, eight days later than agreed. The draft omitted a number of key statements and figures including the Governance Statement, the Remuneration Report, pension fund figures and related disclosures. The draft also contained a significant number of presentational errors requiring correction.</p> <p>The revised Performance Report and Governance Statement submitted for audit omitted key disclosures and required updating to ensure the information reported was in accordance with the FReM and the SPFM.</p>	<p>Management revised the unaudited Annual Report and the first complete unaudited Annual Report and Accounts was received on 5 June 2023.</p> <p>Recommendation 1 (refer Appendix 1, action plan).</p> <p>We will work together with NHS Highland to ensure that the agreed timetable for presenting a complete set of the unaudited annual report and accounts for audit is met. In addition, there should be an appropriate review process in place to ensure the accounts presented for audit are of a good quality.</p>
<p>2. Contract income</p> <p>We tested a sample of 30 income transactions and found two instances where contracts with providers were not in place or out of date. The income amounts were satisfactorily validated to the annual accounts and to evidence provided such as invoices. However, for one of the two instances, monies received were based on historic values with no inflation adjustment, and for the other instance we found that informal arrangements, based on historic emails were used for service provision, rather than contracts.</p>	<p>We received assurance this issue would not result in a material misstatement in the accounts.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p> <p>Management needs to ensure that contracts and charges for the provision of services are reviewed and updated as appropriate on a regular and timely basis.</p>
<p>3. Pension liability accounting treatment</p> <p>NHS Highland has a pension fund liability of £4.5 million as at 31 March 2023 in respect of NHS Highland Council social care staff who transferred to NHS Highland in 2012. Accounting for the Local Government Pension Scheme within NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the Statement of financial position, instead the</p>	<p>We received e-mail confirmation from Scottish Government that this accounting treatment is acceptable.</p> <p>Recommendation 3 (refer Appendix 1, action plan)</p> <p>NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of this departure from IAS 19 requirements.</p>

Issue	Resolution
<p>impact of the liability is removed to other reserves.</p>	
<p>4. Leases</p> <p>We tested a total of 7 leases and were unable to confirm the terms of the lease for four of the agreements.</p> <p>Furthermore, for one of the payments sampled there was no lease agreement available to support the payment, only an invoice.</p>	<p>We received assurance this issue would not result in a material misstatement in the accounts.</p> <p>Recommendation 4 (refer Appendix 1, action plan)</p> <p>A review should be undertaken of lease agreements to ensure the terms of the agreements are clear and up to date.</p>

The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

19. There have been changes finance team and a loss of experience in the last year. Despite this, we found that working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. Officers responded promptly to most of our audit queries.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries and focus on significant risk areas. • Considered the need to test journal entries and other adjustments during the period. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Performed focussed testing of accounting accruals and prepayments. 	<ul style="list-style-type: none"> • There was a lack of evidence of key controls operating as planned (refer Exhibit 7). We therefore undertook additional testing of journals pre and post year-end focussing on significant risk areas. • Our testing of journals, year-end transactions, accruals and prepayments did not identify any incidents of management override of controls. • We did not identify any unusual journal activity. • Our assessment of the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements did not highlight any weaknesses. • The methods and assumptions used to prepare accounting estimates were confirmed to be consistent with prior-years or with changes in accounting standards (as per leases). • As a result of the above work we are satisfied that there is no material misstatement arising from this risk.

21. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The results of our audit procedures and conclusions are set out in [Exhibit 4](#).

Exhibit 4

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Results and conclusion
<p>Estimation in the valuation of other land and buildings</p> <p>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 changes in these can result in material changes to valuations. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. There is also the risk, for those assets not subject to revaluation in-year, that the carrying value does not reflect current value.</p>	<p>We confirmed that NHS Highland provided appropriate instruction and supporting information to allow the valuation process to proceed effectively. We assessed the valuer and confirmed that they are competent and appropriately qualified for their role. The results from the valuation exercise were correctly posted through the financial ledger and into the annual report and accounts. We assessed the approach taken by the valuer to assets not subject to a valuation in year and confirmed that this was reasonable. As a result of the above, we are satisfied that the valuation of property assets is not materially misstated.</p>
<p>Pension liabilities accounting treatment</p> <p>NHS Highland has a pension fund liability of £4.5 million as at 31 March 2023 in respect of NHS Highland Council social care staff who transferred to NHS Highland in 2012. Accounting for the Local Government Pension Scheme within NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the Statement of financial position, instead the impact of the liability is removed to other reserves. We will liaise with the client to ensure a formal agreement of this accounting treatment is obtained from Scottish Government.</p>	<p>We received e-mail confirmation from Scottish Government that this accounting treatment is acceptable. We have recommended that NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of this departure from IAS 19 requirements.</p>
<p>Pension liabilities valuation</p> <p>The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. This is an area of</p>	<p>We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions. This work included identifying significant actuarial assumptions which involve local factors, and</p>

Audit risk	Results and conclusion
<p>audit focus because the methodology applied could have a material impact on the net pension liability accounted for in the financial statements. The basis of the assumptions should also be derived on a consistent basis year to year. We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Highland Council.</p>	<p>we confirmed that these assumptions fall within an acceptable range. No issues were identified.</p>

Source: 2022/23 NHS Highland Annual Audit Plan

Total unadjusted misstatements in the financial statements are £0.5 million

22. Our audit identified one misstatement above our reporting threshold.

23. We considered the size, nature and circumstances leading to the uncorrected misstatement, and concluded that it was not material. Further details of the uncorrected misstatement is included in [Appendix 2](#).

Good progress was made on prior year recommendations

24. NHS Highland has made good progress in implementing the audit recommendations identified by Grant Thornton, NHS Highland's previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

After developing a recovery plan to offset increasing costs and undelivered savings, NHS Highland ended the year with a £0.4 million surplus against its revised Revenue Resource Limit.

NHS Highland has significant financial management challenges.

We identified a number of areas for improvement in the financial systems of internal control.

We carried out audit work in response to risks relating to financial management identified in our 2022/23 Annual Audit Plan.

25. [Exhibit 5](#) sets out the wider scope risks relating to Financial Management we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
<p>Financial Management and Sustainability</p> <p>The most recent financial monitoring report prepared by NHS Highland is projecting a year-end overspend position of £20 million. This represents an increase of £4 million on the approved budgeted overspend.</p> <p>There is a risk that the board does not receive the final</p>	<ul style="list-style-type: none"> Monitored the board's financial position as reported to the board / relevant committees. Reviewed 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. 	<p>We reviewed financial monitoring reports and financial plans throughout the audit year.</p> <p>We attended audit committee meetings and reviewed papers from board meetings.</p> <p>Management developed a recovery plan in 2022 to offset the increasing costs and undelivered savings.</p>

Audit risk	Audit Response	Conclusion
<p>allocation letter to enable audit sign off by 30 June 2023.</p> <p>There is also a risk that NHS Highland cannot deliver services over the medium term within budget.</p>	<ul style="list-style-type: none"> Attended and observed at board and relevant committee meetings. 	<p>The final allocation letter was received by 15 June 2023.</p> <p>The board delivered £10 million of savings in 2022/23, only £3 million of which were recurring in nature.</p> <p>The board's continued reliance on brokerage and non-recurring savings to balance the budget presents a risk to future financial sustainability and consequently the ability of NHS Highland to deliver services in the future.</p>

NHS Highland ended the year with a £0.4 million surplus against its revised Revenue Resource Limit

26. The Scottish Government Health and Social Care Directorates set annual resource limits and cash requirements which NHS boards are required by statute to work within.

27. [Exhibit 6](#) shows that the board operated within its limits during 2022/23. Throughout 2022/23, NHS Highland was projecting a year-end overspend position of £20 million, representing an increase of £4 million on the approved budgeted overspend. Management developed a recovery plan during the year to offset the increasing costs and undelivered savings which included technical adjustments and Scottish Government lodgement as well as drawing down reserve funds.

28. These actions together with repayable brokerage funding of £16 million provided by Scottish Government (as agreed during the budget process) enabled NHS Highland to end the year with a surplus of £0.4 million.

Exhibit 6

Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	920	920	0
Non-core revenue resource limit	45	45	0
Total revenue resource limit	965	965	0
Core capital resource limit	34	34	0

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Total capital resource limit	34	34	0
Cash requirement	1	1	0

Source: NHS Highland Annual Report and Accounts 2022/23

Efficiency savings totalling £10million were achieved during 2022/23, with £3 million on a recurring basis

29. The approved budget for 2022/23 included a funding gap of £42m, £26m of which was to be met through the cost improvement programme, leaving an unfunded balance of £16 million.

30. Only £10 million of savings were delivered in year through the cost improvement programme (£3 million recurring / £7 million non-recurring), leaving an undelivered element of £16m.

31. The board's continued reliance on brokerage and non-recurring savings to balance the budget presents a risk to future financial sustainability and consequently the ability of NHS Highland to deliver services in the future.

32. NHS Highland submitted a financial plan to Scottish Government for the 2023/2024 financial year in March 2023. An initial budget gap of £98 million was presented with a proposed Cost Improvement Programme of £29 million. NHS Highland expects that a request for brokerage will be required to close the residual gap of £69 million.

Recommendation 5 (refer [Appendix 1](#), action plan)

NHS Highland needs to urgently secure brokerage funding from Scottish Government to break even in 2023/24 and ensure continued delivery of services.

IJB outturn and impact on NHS Highland

Argyll and Bute IJB

33. Argyll & Bute Health and Social Care Partnership (HSCP) reported a year end underspend of £6 million in 2022/23. The underspend will be carried forward in the IJB reserves.

34. The IJB had Covid-19 reserves that covered forecast costs for 2022/23. Scottish Government issued a letter stating that they would reclaim any surplus Covid reserves to allow them to redistribute the funding across the NHS to meet current Covid priorities. The total value of funding reclaimed from Argyll and Bute HSCP was £6 million.

Highland Health and Social Care Partnership

35. Highland Health and Social Care Partnership reported an overspend of £7 million mainly due to additional costs in relation to locums and agency nursing cover.

36. Adult Social Care is reported within the Highland Health and Social Care Partnership as a delegated function from The Highland Council. Although the service reported a break-even position in the year, this was achieved through the use of reserves generated in prior years. There is a small amount of reserve remaining, which will be utilised in full during 2023/24 with significant financial pressures being projected in future years.

2022/23 Capital Resource Limit

37. NHS Highland received a total capital allocation for 2022/23 of £34 million, £14 million of which was invested in the National Treatment Centre - Highland which opened in June 2022.

38. The National Treatment Centre – Highland is a state-of-the-art, unique facility offering ophthalmology and orthopaedic services to Inverness and the surrounding communities. The new facility has five operating theatres, 24 beds, 13 consultation rooms, clinics and outpatient departments that will help to reduce waiting times, while providing an innovative and bespoke environment for both patients and staff. This centre is part of a national network of 10 treatment centres funded by the Scottish Government and hosted by NHS Highland.

We identified some areas for improvement in the financial systems of internal control

39. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

40. Our 2022/23 testing covered key controls in a number of areas including budget monitoring, payroll, journals, and IT access. We identified some areas where controls can be strengthened or the audit trail improved, as outlined in [Exhibit 7](#).

41. These findings impacted on our audit approach as we needed to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

42. Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

Exhibit 7

Key findings from review of key controls

Audit finding	Additional audit procedures
<p>1. Payroll validation checks</p> <p>We identified a controls weakness in the staff list verification exercise, as officers advised that there were some budget holders who did not respond to the exercise. We also found that evidence is not maintained of the verification exercises carried out.</p> <p>There is a risk that payments are made to fictitious employees or employees who no longer work for NHS Highland.</p>	<p>We substantively tested an extended sample of paid employees to ensure they exist as current employees through confirmation to other records.</p> <p>No issues were identified.</p> <p>Recommendation 6 (refer Appendix 1, action plan)</p> <p>Robust validation controls should be implemented to ensure staff do not remain on the payroll after their date of leaving.</p>
<p>2. User access</p> <p>Officers confirmed that periodic reviews of users of the Bankline system are carried out but the reviews are not evidenced and no formal process in place. Furthermore, evidence is not always kept of request for new user.</p> <p>There is a risk of unauthorised access to Bankline and fraud.</p>	<p>We undertook additional audit procedures on the year end bank reconciliation.</p> <p>We reviewed the list of users with access to Bankline at the end of May 2023 and found all users had appropriate access.</p> <p>Recommendation 7 (refer Appendix 1, action plan)</p> <p>User access permissions for all financial systems need to be reviewed on a frequent basis to ensure that the permissions granted are appropriate to job roles and relate only to current employees.</p>
<p>3. Journals</p> <p>A control team is in place and officers advised that regular checks are performed to ensure journals have been appropriately authorised and include supporting backup documentation, but these checks are not evidenced.</p> <p>In response to the high number of inadequate journals identified by the control team, and a recommendation reported by the previous external auditors, NHS Highland introduced spot checks on journals at the financial year end in 2023.</p> <p>We reviewed the evidence of spot checks and concluded that there was a process in place but with scope for improvement as</p>	<p>We undertook additional testing of journals pre and post year-end focussing on significant risk areas. No issues were identified.</p> <p>Recommendation 8 (refer Appendix 1, action plan)</p> <p>Management should ensure robust controls are in place and can be evidenced to detect journals which have not been properly authorised or do not have sufficient backup documentation.</p>

Audit finding	Additional audit procedures
<p>the process was not fully robust and there was a lack of evidence to support the level of testing carried out.</p> <p>There is a risk that unauthorised journals are processed leading to fraud and/or error.</p>	
<p>4. Changes to supplier details</p> <p>We tested 15 changes to supplier details and only one was concluded as satisfactory. For the 14 changes concluded as unsatisfactory, we found that procedures to verify changes were in place but had not been followed.</p> <p>There is a risk of exposure to fraud.</p>	<p>We used data analytics to select high risk payments for testing and did not identify any fraudulent payments.</p> <p>Recommendation 9 (refer Appendix 1, action plan)</p> <p>Agreed procedures need to be followed for all changes to supplier details.</p>

Source: Audit Scotland

There were no significant issues with providers of key financial systems

43. A part of our overall audit approach we rely on assurances from key service providers. This includes:

- NHS National Services Scotland (NSS) provision of primary care payments and the national IT contract
- NHS Ayrshire & Arran provision of the National Single Instance eFinancials service
- NHS Highland uprating of annual pay awards in the e-payroll system hosted by NHS National Services Scotland.

44. We considered the evidence from service auditor's assurance reports and other auditor assurances for 2022/23 and identified two issues which are detailed below, which did not significantly affect NHS Highland.

- The National Single Instance eFinancials service report. The service auditor reported that: "the eFinancials system was updated from version 5 to version 6 between Friday 20 and Monday 23 January 2023, issues have emerged when the system went live and multiple users were accessing the system concurrently. Following the migration to eFin v6, the system became unstable when a number of users access DBCapture concurrently (with) significant disruption to accounts payable service and as a result there had been delays in paying suppliers and document images are not saved into the Finance System when invoices are paid through this method. The level of disruption experienced has varied across Boards,

partly due to when the decision was taken locally to revert to paying invoices manually". At NHS Highland this did not cause any significant issues

- The National Single Instance eFinancials service report. The service auditor acknowledged a gap in the current service audit arrangements at the body: "Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of the service report". NHS NSS confirmed that specific assurance for general IT controls relates to payroll and practitioner services and not to the general ledger. This issue did not lead to an audit risk for the 2022/23 accounts, however we view this as a Scotland-wide governance issue which the wider NHS is seeking to resolve

45. We considered the evidence from service auditor's assurance reports and other auditor assurances for 2022/23 and did not identify any significant risks of material misstatement within the financial statements arising from these services.

Standards of conduct for prevention and detection of fraud and error are appropriate

46. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

47. NHS Highland has arrangements in place to prevent and detect fraud or other irregularities, however, we have identified control weaknesses, reported in [Exhibit 7](#), which could give rise to fraud.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

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 2026.

The amount of savings anticipated from cost improvement programmes to date have been significantly over-estimated and where savings have been realised these have been mainly of a non-recurring nature.

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. It is crucial that medium to longer term solutions are identified to bridge the projected funding gaps which threaten the financial sustainability of the board.

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

48. As highlighted in Audit Scotland's [NHS in Scotland 2022](#) report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. These include inflation, recurring pay pressures, ongoing Covid-19 related costs, rising energy costs and a growing capital maintenance backlog.

NHS Highland has prepared a medium term financial plan

49. NHS Boards were required to submit a three-year financial plan covering the period 2022/23 to 2024/25 to the Scottish Government by the end of July 2022. This three-year plan is intended to enable a more strategic approach to planning and support programmes of service transformation, through the cost improvement programme.

50. NHS Highland Board approved its three-year plan (the Plan) in May 2022. The Plan was prepared to align with the NHS Recovery Plan and the Care and

Wellbeing Portfolio and highlights that the challenges in the coming years are far greater than those encountered previously.

51. Since then, the Plan has been updated to cover the period 2023/24 to 2025/26. The Plan identifies a cumulative residual funding gap of £69 million in 2023/24 rising to £74 million in 2026.

52. Discussions with Scottish Government are taking place to identify mitigating actions to reduce the identified gap with additional support being provided to the board and it is expected that a request will be made to the Scottish Government to provide brokerage again in 2023/24.

53. The board's forecast within the latest financial plan for 2023/24 are based on a number of assumptions including allocation uplifts, inflationary costs, pay growth and the implications of continuing recruitment difficulties. The board has reported facing new pressures in Adult Social Care arising from the unsustainability of some private care providers in remote and rural areas and a number of other key areas of challenge in providing services.

54. The ability to deliver on cost improvement targets will be crucial in the current year and given the board's own assessment of the risks it faces financial sustainability will be even more challenging than in previous years.

Cost improvement programmes have not been achieved

55. The amount of savings anticipated from cost improvement programmes have been significantly over-estimated to date and where savings have been realised these have been mainly of a non-recurring nature, as shown in [Exhibit 8](#) below.

Exhibit 8

Cost improvement and savings

Cost Improvement Programme	2021/22 £m	2022/23 £m
Planned savings	33	26
Savings achieved	20	10
Recurring savings	3	3
Non-recurring savings	17	7
Savings shortfall	13	16

Source: NHS Highland

56. The reliance on non-recurring savings year on year is putting additional financial pressure on the board, and when combined with the increasing cost and demand pressures currently being faced by NHS Highland is not sustainable in the medium or long term.

Sustainability and Value Programme initiatives

57. 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.

Recommendation 10 (refer [Appendix 1](#), action plan)

It is crucial that medium to longer term solutions are identified to bridge the projected funding gaps which threaten the financial sustainability of the board.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NHS Highland has appropriate governance arrangements.

We identified a number of weaknesses in cyber security arrangements and the general IT environment.

The work of the Independent Review Panel (IRP) of the Healing Process is now concluded, and NHS Highland is committed to continuing to implement the recommendations and learn from the themes raised in the Panel's reports.

NHS Highland has a clear vision and strategy

58. NHS Highland has a clear vision and strategy supported by a workforce plan and a delivery plan.

59. NHS Highland has identified three strategic objectives to deliver the vision of 'outstanding care delivered by an outstanding team':

- Population – deliver the best health and care outcomes for our population
- People – be a great place to work for our people
- Partnership – create value by working in partnership to transform the way we deliver health and care.

60. The delivery plan, which was approved by the board in September 2022, sets out the priorities for delivering the objectives and outcome measures over the next five years to 2027. The annual delivery plan includes a series of actions to address backlogs caused by the Covid-19 pandemic and restore performance levels but there are a number of challenges affecting delivery of key projects including workforce, infrastructure and financial pressures (refer [paragraphs 72-79](#)).

61. NHS Highland has developed an integrated service planning approach to align its workforce demand plans to clinical outcomes, financial resources and availability of skills and experience. An organisation wide programme has been drafted to assure a whole system modelling approach in NHS Highland. Previous Annual Operational Plans and Remobilisation plans, workforce plans, and financial plans have been presented largely in isolation. In developing integrated service planning, NHS Highland aims to ensure it is delivering the right services, at the right time, with the appropriate workforce capacity and within its financial means.

Governance arrangements are appropriate

62. NHS Highland's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate.

63. There is scope to strengthen NHS Highland's approach to openness and transparency by making the papers and minutes of the Audit Committee available on the website, although all minutes for Board meetings are available on the website.

64. Through our attendance at Audit Committee meetings, we concluded that committee papers were timely and well prepared and committee members were well-prepared and demonstrated good scrutiny.

The Healing Process is now concluded and NESH has adopted a culture programme

65. The work of the Independent Review Panel of the Healing Process is now concluded, and NHS Highland is committed to continuing to implement the recommendations and learn from the themes raised in the Panel's reports. NHS Highland has adopted a culture programme. This has included putting in place and promoting ways for colleagues to speak up and be heard, a review of HR systems, and improvements to communications and engagement.

Climate change arrangements

66. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

67. NHS Highland produces an annual Climate Emergency and Sustainability Annual Report; the most recent was for 2021/22 which was published in January 2023. These reports are available on the NHS Highland website. The board included a link to this report in its annual report and accounts but there is scope to expand the narrative on commitments, impacts and performance in relation to climate change, as suggested in the NHS accounts manual.

68. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-

specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security and risks around use of IT

69. There continues to be a significant risk of cyber-attacks to public bodies. A number of recent incidents have demonstrated the significant impact they can have on both the finances and operation of an organisation.

70. As noted in our annual audit plan we undertook an initial review of the board's use of IT as part of our planning and risk assessment and identified some areas where improvements could be secured in relation to the general IT environment and in cyber security arrangements which NHS Highland are already addressing as part of their response to the Network and Information Systems (NIS) audit.

71. Our overall conclusion was that NHS Highland has adequate cyber security arrangements in place and are continually reviewing and responding to developments in this area.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The NHS Highland annual delivery plan has a series of actions to address backlogs caused by the Covid-19 pandemic and restore performance levels but there are a number of challenges affecting delivery of key projects including workforce, infrastructure and financial pressures.

Appropriate arrangements are in place for monitoring and reporting performance across the board.

NHS Highland has not formally reviewed arrangements to demonstrate how it is achieving Best Value.

NHS Highlands' annual delivery plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

72. The Scottish Government requested NHS boards to produce and regularly revise plans outlining how they are progressing the delivery of health services.

73. NHS Highland approved an annual delivery plan for 2022/23 in September 2022 to support the strategic outcomes as articulated in the new 'Together We Care, with you, for you' five-year strategy. This annual delivery plan is seen as the basic building block for creating a firm foundation on which to build and improve on over the period of the strategy. It is wide-ranging and detailed and includes ongoing recovery measures from the Covid-19 pandemic and the actions needed to restore performance levels and how these will be measured.

74. Quarterly updates on the plan show that there have been difficulties in meeting targets and at the end of quarter 4, 33% of actions were in the 'at risk' category with a further 6% delayed. The significant challenges impacting on performance include workforce, infrastructure, and financial pressures to meet general increases in demand for services.

NHS Highland has appropriate arrangements for performance monitoring and reporting

75. Performance reports have been considered by the Finance, Performance and Resource Committee regularly throughout 2022/23. Performance is publicly reported through the Annual Performance Reports though the 2022/23 report has not yet been completed. [Exhibit 9](#) sets out performance against key waiting times in a number of areas.

Exhibit 9

Performance against key waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022	Performance at March 2023 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	79%	75.5%	74%	69.7%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	76.5%	74.7%	68.4%	65.1%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	63.5%	74.6%	68.5%	54.5%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	81%	69.8%	47.9%	63%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	91.2%	94.3%	79.7%	80%

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022	Performance at March 2023 ¹
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	91.9%	96.6%	95%	94.2%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	88.2%	81.4%	74.5%	87.4%

Source: Public Health Scotland

76. The table demonstrates improved performance, year on year, in waiting times for outpatients waiting less than 12 weeks from referral, and for the proportion of patients who started cancer treatment within 31 days of decision to treat.

77. NHS Highland has achieved the improved performance in waiting times by a combination of different initiatives including significant modernisation of delivery taking a lead from the Centre for Sustainable Delivery (CfSD) initiatives. NHS Highland has also developed a waiting list validation methodology and increased capacity internally and through the independent sector.

78. For patients who require cancer treatment improvements have focussed on timely reporting of pathology and radiology, pathway improvements and clinical engagement.

79. For all other standards included in the table there has been a reduction in performance since the pandemic, but the Delivery Plan provides clear plans for improving outcomes over the next five years and we will monitor performance against the outcomes during the remainder of our audit appointment.

NHS Highland has various examples of complying with best value. Adopting a formal mechanism would demonstrate that Best Value principles are integrated in the board's planning and reporting processes.

80. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

81. There is evidence of best value being demonstrated by NHS Highland across a range of areas including planning, performance monitoring and delivery, however the mechanism for reviewing and reporting on the arrangements to secure best value has not been formalised or published.

Recommendation 11 (refer [Appendix 1](#), action plan)

A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed. The outcome of the assessment should be reported to the board.

Appendix 1: Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action / timing
<p>1. Unaudited accounts</p> <p>We received the first version draft of the Annual Report and Accounts on 17 May 2023, eight days later than agreed. The draft omitted a number of key statements and figures including the Governance Statement, the Remuneration Report, pension fund figures and related disclosures. The draft also contained a significant number of presentational errors requiring correction.</p> <p>The revised Performance Report and Governance Statement submitted for audit omitted key disclosures and required updating to ensure the information reported was in accordance with the FReM and the SPFM.</p>	<p>We will work together with NHS Highland to ensure that the agreed timetable for presenting a complete set of the unaudited annual report and accounts for audit is met. In addition, there should be an appropriate review process in place to ensure the accounts presented for audit are of a good quality.</p>	<p>Management agrees to work together with Audit Scotland to agree a timetable that includes the Annual report, Financial Performance report and Accounts whilst being mindful of the elements that are outside of the Boards control Such as the Remuneration report and pension fund figures.</p> <p>Responsible officer – Assistant Director Financial Services.</p> <p>Agreed date by the end of December 23.</p>
<p>2. Contract income</p> <p>We tested a sample of 30 income transactions and found two instances where contracts with providers were not in place or out of date. The income amounts were satisfactorily validated to the annual accounts and to evidence provided such as</p>	<p>Management needs to ensure that contracts and charges for the provision of services are reviewed and updated as appropriate on a regular and timely basis.</p>	<p>Management agrees that we will ensure the correct documentation have been reviewed and updated where appropriate.</p> <p>The 2 instances identified by the auditors there was an interim contract in place due to a tendering process that had been paused and a</p>

Issue/risk	Recommendation	Agreed management action / timing
<p>invoices. However, for one of the two instances, monies received were based on historic values with no inflation adjustment, and for the other instance we found that informal arrangements, based on historic emails were used for service provision, rather than contracts.</p> <p>There is a risk that income charges may not be in accordance with current prices and may not represent value for money.</p>		<p>rental increase had not been completed as per the lease because the rent review of premises leased to GDPs mirrors the cycle of valuations associated with the Reimbursement of Practice Rental Costs as detailed in Det XV of the Statement of Dental Remuneration. The Scottish Government commission valuations on a 3yr cycle for the purposes of this reimbursement. During Covid SG advised that no valuations would take place. Subsequently SG have advised that this position will be maintained whilst their discussions with the profession around reform of the Dental contract are progressed.</p> <p>Responsible officer - Assistant Director Financial Services.</p> <p>Agreed date by the end of December 2023.</p>
<p>3. Pension liability accounting treatment</p> <p>NHS Highland has a pension fund liability of £4.5 million as at 31 March 2023 in respect of NHS Highland Council social care staff who transferred to NHS Highland in 2012. Accounting for the Local Government Pension Scheme within NHS Highland financial statements departs from the requirements of IAS 19 as there is no net pension liability recognised within the</p>	<p>NHS Highland should obtain a revised Accounts Direction from the Scottish Government to formalise approval of this departure from IAS 19 requirements.</p>	<p>Management Agrees to revisit the treatment agreement with Scottish Government and request formal Accounts Direction.</p> <p>Responsible officer – Assistant Director Financial Services.</p> <p>Agreed date by the end of December 2023.</p>

Issue/risk	Recommendation	Agreed management action / timing
<p>Statement of financial position, instead the impact of the liability is removed to other reserves.</p> <p>There is a risk that the accounting treatment of the Pension Liability is not in accordance with requirements of IAS 19 or in line with the expectations of Scottish Government.</p>		
<p>4. Leases</p> <p>We tested a total of 7 leases and were unable to confirm the terms of the lease for four of the agreements.</p> <p>Furthermore, for one of the payments sampled there was no lease agreement available to support the payment, only an invoice.</p> <p>There is a risk of error in the accounts.</p>	<p>A review should be undertaken of lease agreements to ensure the terms of the agreements are clear and up to date.</p>	<p>Management Agree to review and estates team are actively working to ensure we have the appropriate documentation.</p> <p>Responsible officer - Deputy Director of Estates, Facilities and Capital Planning.</p> <p>Agreed date by the end of December 2023.</p>
<p>5. Budget gap 2023/24</p> <p>NHS Highland submitted a financial plan to Scottish Government for the 2023/2024 financial year in March 2023. An initial budget gap of £98 million was presented with a proposed Cost Improvement Programme of £29 million. NHS Highland expects that a request for brokerage will be required to close the residual gap of £69 million.</p> <p>There is a risk that NHS Highland may not receive brokerage and be unable to break even at the year end.</p>	<p>NHS Highland needs to urgently secure brokerage funding from Scottish Government to break even in 2023/24 and ensure continued delivery of services.</p>	<p>NHS Highland are currently under “Tailored support” with Scottish Government which is working to agree the target position for the financial year. This will include agreement over funding of the gap.</p> <p>Responsible officer – Director of Finance.</p> <p>Agreed date by the end of September 2023.</p>

Issue/risk	Recommendation	Agreed management action / timing
<p>6. Payroll validation checks</p> <p>We identified a controls weakness in the staff list verification exercise, as officers advised that there were some budget holders who did not respond to the exercise. We also found that evidence is not maintained of the verification exercises carried out.</p> <p>There is a risk that payments are made to fictitious employees or employees who no longer work for NHS Highland.</p>	<p>Robust validation controls should be implemented to ensure staff do not remain on the payroll after their date of leaving.</p>	<p>The issue has been identified within internal audit. Actions will progress through monitoring of management actions through monitoring at the audit committee.</p> <p>Further actions will be undertaken over the coming 12 months as follows:</p> <ol style="list-style-type: none"> 1) Implement automated reminders to all managers using SSTS re: confirm and authorisation requirements. 2) Undertake root cause analysis on all overpayments to establish reasons and develop education for managers as required. 3) Review the timesheet tracking process to mirror the automated reminder process for SSTS and implement. <p>Responsible Officer - Head of people, Planning, Analytics HR Services.</p> <p>Agreed Date: by the end of end March -2024.</p>
<p>7. User Access</p> <p>Officers confirmed that periodic reviews of Bankline users are carried out but the reviews are not evidenced and no formal process in place. Furthermore, evidence is not always kept of request for new user.</p> <p>There is a risk of unauthorised access to Bankline and fraud.</p>	<p>User access permissions for all financial systems need to be reviewed on a frequent basis to ensure that the permissions granted are appropriate to job roles and relate only to current employees.</p>	<p>Management agrees to implement an SOP for User Access control.</p> <p>Responsible officer – Assistant Director Financial Services.</p> <p>Agreed date by the end of October 2023.</p>
<p>8. Journals</p> <p>A control team is in place and officers advised that regular</p>	<p>Management should ensure robust controls are in place and can be evidenced to detect journals which have</p>	<p>Management agrees to further enhance the journal SOP (standard Operating Procedure) to ensure it</p>

Issue/risk	Recommendation	Agreed management action / timing
<p>checks are performed to ensure journals have been appropriately authorised and include supporting backup documentation, but these checks are not evidenced.</p> <p>In response to the high number of inadequate journals identified by the control team, and a recommendation reported by the previous external auditors, NHS Highland introduced spot checks on journals at the financial year end in 2023.</p> <p>We reviewed the evidence of spot checks and concluded that there was a process in place but with scope for improvement as the process was not fully robust and there was a lack of evidence to support the level of testing carried out.</p> <p>There is a risk that unauthorised journals are processed leading to fraud and/or error.</p>	<p>not been properly authorised or do not have sufficient backup documentation.</p>	<p>includes the review of journals that is currently being performed.</p> <p>Responsible officer – Assistant Director Financial Services.</p> <p>Agreed date by the end of October 2023.</p>
<p>9. Changes to supplier details</p> <p>We tested 15 changes to supplier details and only one was concluded as satisfactory. For the 14 changes concluded as unsatisfactory, we found that procedures to verify changes were in place but had not been followed.</p> <p>There is a risk of exposure to fraud.</p>	<p>Agreed procedures need to be followed for all changes to supplier details.</p>	<p>Management have conducted a training refresher with the team and agree to review and update the SOP for changes to Supplier details.</p> <p>Responsible officer – Assistant Director Financial Services.</p> <p>Agreed date by the end of October 2023.</p>
<p>10. Financial sustainability</p>	<p>It is crucial that medium to longer term solutions are</p>	<p>Work is ongoing through the Strategy & Transformation</p>

Issue/risk	Recommendation	Agreed management action / timing
<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 2026.</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 future financial sustainability and consequently the ability of NHS Highland to deliver services in the future.</p>	<p>identified to bridge the projected funding gaps which threaten the financial sustainability of the board.</p>	<p>team to progress the 3 Horizon's opportunities which will be focussing on shorter term efficiencies and longer term re-design and sustainability.</p> <p>Responsible officer – Director of Finance & Deputy Chief Executive.</p> <p>Agreed date - ongoing and reported through Finance, Resource and Performance Committee.</p>
<p>11. Best Value</p> <p>There is evidence of best value being demonstrated by NHS Highland across a range of areas including planning, performance monitoring and delivery, however the mechanism for formally reviewing and reporting on the arrangements to secure best value has not been formalised or published.</p>	<p>A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed. The outcome of the assessment should be reported to the board.</p>	<p>Management will review the significant body of work being undertaken in this area and consider how to best reflect this within the organisation.</p> <p>Responsible officers – Director of Finance and Deputy Chief Executive.</p> <p>Agreed date by end of December 2023.</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action / timing
1. Programme of valuation of land and buildings	<p>NHS Highland's accounting policies state that valuations of all land and building assets are reassessed by valuers under a five-year programme of professional valuations and adjusted in the intervening years to take account of movements in prices (indexation) since the latest valuation. It was noted in the prior year audit that £37 million of assets had not been revalued for a period of more than five years.</p>	Complete
2. Review of valuation reports	<p>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 seven assets. 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 the valuers accordingly.</p>	Complete
3. National Fraud Initiative	<p>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.</p>	Complete
4. Financial Sustainability	<p>The 2022/23 Financial Plan currently includes an unfunded budget gap of £16 million and NHS Highland expect that an element of brokerage will be required.</p> <p>We recommend that NHS Highland continue to look to identify ways in which this gap can be reduced and where that is not possible discussions should also continue with the Scottish Government to inform them of any potential brokerage requirements as soon as practicable.</p>	Complete
5. Compliance with IAS 19 and pension accounting entries	<p>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 discuss with</p>	Outstanding. Refer to recommendation 3 above.

Issue/risk	Recommendation	Agreed management action / timing
	<p>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.</p>	

Appendix 2: Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£0	£0	£0	£0
1. Net defined benefit liability	Reduction in pension liability		0.5	0.5	

NHS Highland

2022/23 Annual Audit Report

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