



Grant Thornton

NHS Highland

External Audit Plan for the financial year ending 31 March 2019

Audit Committee 18 December 2018

Final Audit Plan

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Our audit at a glance



Performance materiality is set at 75% of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.



Board and Group materiality is set at 1% of gross expenditure based on 2017/18 audited financial statements (£8.980 million). This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements.



Significant audit risks are: management override of controls and revenue recognition as set out in International Standards on Auditing (ISAs UK) and expenditure recognition as set out in Financial Reporting Council (FRC) Practice Note 10.

An audit underpinned by quality and adding value to you



During 2018/19 as set out in the Audit Scotland planning guidance we will consider certain factors that may impact on the Board including: EU Withdrawal, Care income, changing landscape for public financial management, dependency on key suppliers and openness and transparency in reporting. We will consider these where relevant throughout our audit work.



For 2018/19, new accounting standards will apply for revenue and financial instruments. We will consider NHS Highland's evaluation of the new standards and the recognition of any adjustments required to the financial statements from their adoption.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Financial sustainability, financial management, value for money and governance arrangements.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

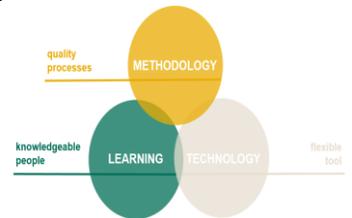
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

Adding value

Our aim is to add value to NHS Highland through our external audit work. This will be delivered through delivering a high quality audit. Specifically for NHS Highland we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit Committee, identifying particular areas for consideration. We will pro-actively work with management during the year to discuss any new or emerging matters, such as the new applicable standards per the NHS Manual for Accounts (see appendix [Technical Updates](#) for relevant updates during planning).



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019
- Annual quality report to the Auditor General and Accounts Commission (January 2019)
- Current issues return for Health to Audit Scotland (21 January 2019)
- Submission of fraud cases to Audit Scotland on a quarterly basis
- National Fraud Initiative - completed Auditor questionnaire (30 June 2019)
- Submission of annual audit report and audited accounts (deadline end of June 2019)
- Submit information dataset for overview (1 July 2019)

Planned Audit Scotland publications which may be relevant to NHS Highland

- Digital progress in central government and health (reporting early 2019/20)
- Modern Apprenticeships
- NHS in Scotland

External Audit deliverables for 2018/19 – Audit Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance and the Auditor General for Scotland (June 2019)
- Audit Opinion (June 2019)
- Management letter of representation (June 2019)

Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- regularity of expenditure and income
- the wider information contained in the financial statements e.g. Accountability Report; Directors Report and Governance Statement is consistent with our audit knowledge and the financial statements

Basis for materiality

We determine financial statement materiality based on a proportion of the total operating expenditure less IJB contributions accounting entries. This approach is consistent with our prior year materiality determination. We have determined Board and Group materiality to be **£8.980 million**, which equates to approximately **1%** of your prior year total operating expenditure for the year. This is based on our judgement of our consideration of material to the user of the account based on understanding of the NHS Highland.

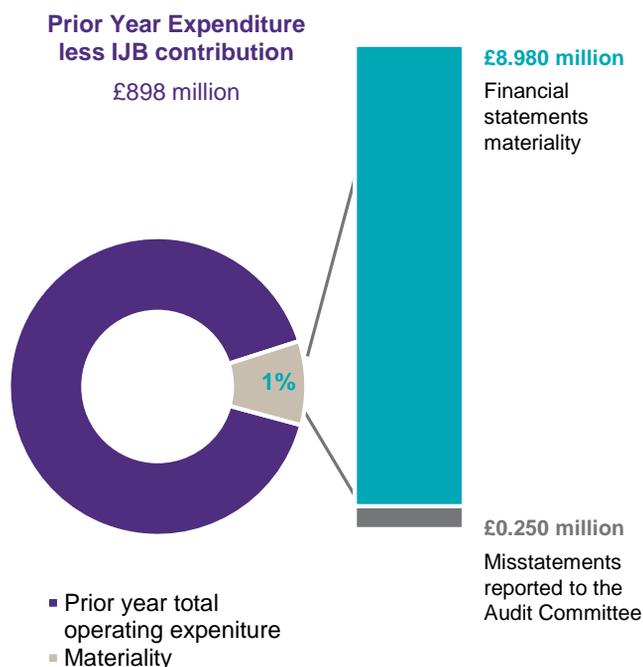
We will update our materiality based on the unaudited 2018/19 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18 we have retained this for 2018/19 at **75%**, being **£6.735 million**. Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£250,000** in accordance with Audit Scotland requirements (maximum reporting threshold).



A risk based audit methodology

NHS Highland continues to experience significant financial challenges. During 2017/18, the Board required £15 million of brokerage funding from the Scottish Government and have estimated that they will require between £19 - £23 million to meet financial targets in the current year. While NHS Highland has enjoyed relative protection from funding reductions across the wider public sector, with a forecast baseline uplift of 1.5% in 2018/19 plus a further £3.1 million of NRAC (NHS Scotland Resource Allocation Committee, basis of allocating funding) parity funding, the Board has forecast that it will need to deliver savings of £50.7m in 2018/19. The underlying financial pressure is due to a range of factors including: cost and service pressures of £21 million, driven though demand in care, particularly around adult social care; inflationary pressures on drugs and staff costs estimated; and, cumulative pressures through historic reliance on non-recurring savings to manage financial position.

Operationally, the Board continues to face significant pressures through delivering services across a disperse population and increasing demand on those services. The Audit Scotland report: NHS in Scotland 2018, highlights that “the NHS urgently needs to move away from short-term fire-fighting to long-term fundamental change”. This is particularly prevalent to NHS Highland where the current model for the provision of care is unsustainable.

Significant risks

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

Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2017/18, NHS Highland's revenue resource allocation was £721 million. While material, we consider this funding to be well forecast and directly agreed to Scottish Government funding letter and draw down. We therefore consider the opportunity and incentive to manipulate this revenue stream as low and rebut the presumed risk around revenue recognition. Similarly funding from services commissioned from the Integration Joint Board of £201 million and revenue from other Scottish Boards is relatively well forecast and agreed to funding letter / inter-Board funding agreements. This reduces the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. We therefore focus our testing on the 'Other' revenue stream. As financial performance targets are primarily set for year end outturn position, the risk is prominent around year end revenue transactions and balances.	<ul style="list-style-type: none"> Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate. Considering management's assessment of the impact of IFRS 15 on revenue streams and ensuring that revenue has been recognised in accordance with the new standard. Evaluation of the existence of debtor balances held at 31 March 2019. Using our data analytics tools to provide assurance that income recognised is in line with expectation. Consider income cut off procedures and substantive testing over pre and post year end balances, over non grant in aid revenue streams. A focus on recoverability of balances.
Management override of controls	As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur Review of the controls over journal entries using our journal analyser tool to focus on higher risk journals Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. This include assumptions around IAS 19 defined benefit obligations and CLO provisions Reviewing unusual and/or significant transactions that are out with the normal course of business

Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
<p>Fraud in expenditure recognition as set out in Practice Note 10</p>	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. NHS Highland's gross expenditure also includes £207 million contribution to the Integration Joint Board. As this expenditure is agreed to funding confirmation we do not consider their to be a significant risk of fraud in this expenditure stream, however the delivery of IJB related services by the Board is considered through payroll and non-payroll costs. We focus our risk on other material expenditure stream including, independent primary care services, drugs and medical supplies, Goods and Service with other private providers and voluntary organisations. As financial performance targets are measured on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> • Perform cut off at year end on pre and post year end transactions and recording • Reviewing the completeness of creditors (and expenditure) recognised. • Walkthrough of the key expenditure controls in place • Regularity – Expenditure incurred in accordance with the type/nature of NHS Highland as an organisation.

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, confirming these are appropriate through our substantive testing.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform procedures around IT general controls.
- Perform walkthrough procedures on key controls around identified risk areas including revenue, non-payroll expenditure and the recognition and valuation of property, plant and equipment.
- Liaise with Highland Pension Fund to determine processes and controls around data to support Highland Council pension fund actuarial valuation.

Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider the work of internal audit throughout the year and maintain an ongoing, open, dialogue with internal audit.

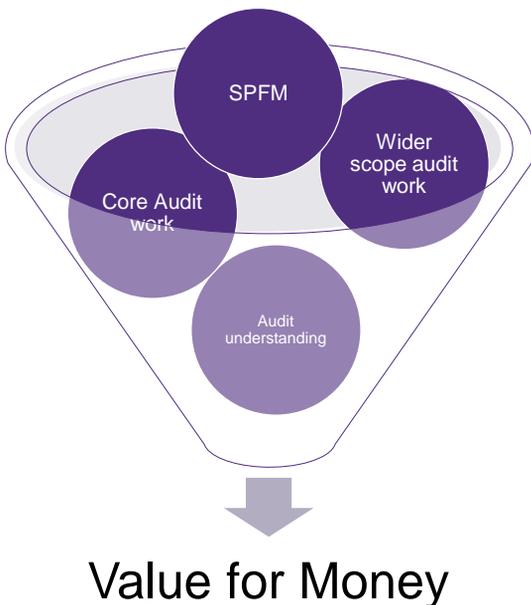
Wider scope audit

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements.

The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Value for Money, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Value for Money.



Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Four audit dimensions defined within the Audit Scotland Code of Audit Practice
- Scottish Public finance Manual (SPFM) nine characteristics of Value for Money
- Our core audit work and audit knowledge

We consider each of these areas through our audit planning process.

Audit Scotland Audit Planning guidance

Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the organisation we will consider the following:

- EU Withdrawal,
- changing landscape for public financial management,
- dependency on key suppliers and
- openness and transparency.

Details included in [appendix 6](#). We consider these areas during our audit planning and throughout our wider scope audit work.

Financial sustainability

NHS Highland faces significant financial challenges. In 2017/18, the Board required £15 million of brokerage funding from the Scottish Government to meet its financial targets primarily through overspends across acute services and Raigmore Hospital and through adult social services expenditure. Underpinning the financial pressure is that the Board do not have a sustainable operating model. While significant savings have been delivered these are not sufficient to meet the levels needed. We raised concerns in our 2017/18 annual audit report and this cumulated in the Auditor General for Scotland issuing a report highlighting concerns on NHS Highland's financial sustainability under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000.

During 2018/19, the Board has forecast that it will require between £19-£23 million of brokerage and approximately £16 million in 2019/20 to break-even. While the Scottish Government has proposed that the Board will not be required to repay brokerage as at 31 March 2018, this does not address the underlying challenge facing the Board that the operating model is unsustainable.

Our response

We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios. We will assess the progress made by the NHS Highland in developing financially sustainable operating plans that continue to support the delivery of the NHS Highland's statutory functions and strategic objectives.

Financial management

The 2018/19 financial plan identified required savings of £52 million. By August 2019, only £30 million of the required savings had been identified and there is still considerable risk around the delivery of these savings in year. The Board faces significant operational challenges including service demand, payroll and non-payroll cost pressures as well as delivery of patient care over a disparate population. While in 2017/18 over £35 million savings were achieved, £13 million was on a non-recurring basis. The level of savings makes the effective use of resources ever more critical and the need to ensure that financial plans and monitoring arrangements are robust. In addition, the Board is in the process of recruiting senior personnel and temporary positions to support finance and transformation.

Our response

We will review the NHS Highland's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored. We will also consider the financial capacity and capability to support good financial governance.

Governance and transparency

During 2017/18 NHS Highland commissioned an independent review of its governance arrangements. The Board are in the process of implementing actions in response to the review to enhance governance at the Board.

The Board continues to face significant challenges with regards the recruitment and retention of key staff, particularly those in senior positions. The Board has yet to appoint a permanent Director of Finance and the Chief Executive leaves the organisation in December 2018. Effective leadership will be critical for the Board over the coming years to deliver high quality patient care on a financially sustainable basis.

There is a risk that the Board does not have robust and effective governance arrangements in place to ensure robust and effective oversight and scrutiny of the delivery of statutory and strategic priorities.

Our response

We will continue to consider through discussions with management and review of minutes NHS Highland's overarching governance arrangements. We will consider the progress made by the NHS Highland in implementing the agreed actions from the recent governance review.

Value for money

Effective decision making

Given the financial and operational pressures facing the Board, the efficient and effective use of resources is critical. Managing these pressures can divert focus and resources on strategic use of resources and longer term financial planning. With emphasis on short term deliverables, decisions may fail to consider longer term implications and value to the organisation.

Our response

We will consider NHS Highland's performance management framework and how they capture and measure performance and outcomes. We will consider the extent to which performance reporting is clear and provides measureable indicator of delivery against targets and that performance information incorporates board wide and operational unit performance. This is critical to ensure there is a clear balance on achieving strategic targets, including waiting times, alongside financial sustainability. We will also consider progress against the key strategic corporate plans and how this is being reported and monitored including how the organisation engages and works with key partners. We will consider the extent.

Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year. In particular, we will consider the findings from the independent enquiry into mistreatment of staff allegations at the Board.

Appendices

Key audit deliverables and our team

Fees and independence

Fraud arrangements

Respective responsibilities

Technical updates

Additional planning consideration of wider scope for 2018/19

Communication of audit matters with those charged with governance

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	152,145
Pooled Costs	16,950
Contribution to Audit Scotland costs	8,700
Contribution to Performance Audit and Best Value	0
2018-19 Fee	177,795

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee is set at the baseline increased by 5% reflecting the additional audit work envisaged in response to wider scope risks and inherent risk of material misstatement to the financial statements. This has been agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and NHS Highland activities will not change significantly from planned
- NHS Highland will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as pensions and valuations of assets are supported by an independent specialist

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Client service

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

Fraud arrangements

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

As part of our audit work we are responsible for:

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

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

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

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

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

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

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

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Highland arrangements in response to the national fraud initiative exercise.

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

Anti-Money Laundering Arrangements

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

Respective responsibilities

As set out in the Code of Audit Practice there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	NHS Highland Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure value for money
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on NHS Highland arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of NHS Highland
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Technical updates

For 2018/19, new accounting standards (International Financial Reporting Standards (IFRS)), will apply covering revenue (IFRS 15) and financial instruments (IFRS 9).

IFRS 9: Financial Instruments

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

IFRS 9	Impact
Criteria for classification of financial assets	IFRS 9 applies a single classification and measurement approach to all types of financial assets based on: <ul style="list-style-type: none"> - The body's business model for managing financial assets; - The contractual cash flow characteristics of the financial asset. This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not).
Measurement categories for financial assets	The new measurement categories for financial assets are as follows: <ul style="list-style-type: none"> - Financial assets measured at amortised cost - Financial assets measured at fair value through other comprehensive income - Financial assets measured at fair vale through profit or loss
Impairment	IFRS 9 contains a forward looking expected loss impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements. The NHS Manual for Accounts requires the simplified approach allowed under IFRS 9, which removes the need for an entity to consider whether the credit quality of trade receivables, contract assets and lease receivables has deteriorated since initial recognition.

Implementation: IFRS 9 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the NHS Manual for Accounts, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

IMPACT

The key practical change in IFRS 9 for most public bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.

ACTION

The Board should undertake an assessment of the potential impact IFRS 9 has on financial instruments held to ensure it has sufficient information to ensure compliance with the standard for the year end accounts.

Technical updates

IFRS 15: Revenue from Contracts with Customers

The core principle of IFRS 15 is that a body should recognise revenue for the transfer of goods or services to customers at an amount that reflects the expected price. A body recognises revenue in accordance with that core principle by applying the following five steps:

1. Identify the contract(s) with a customer. The NHS Manual for Accounts and in accordance with the FReM has extended the definition of a contract to include legislation which enables a body to obtain revenue that is not classified as taxation.
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Implementation: IFRS 15 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the NHS Manual for Accounts, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The impact of the introduction of IFRS 15 will vary across organisations.

The NHS Manual for Accounts interpretation removes the policy choice to retrospectively restate in accordance with IAS 8. On transition, entities will recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application.

IMPACT

The impact of the introduction of IFRS 15 will vary across organisations. For the Board, careful consideration will need to be given to any contractual arrangement and the potential performance obligations contained within these.

ACTION

The Board should undertake an assessment of the potential impact IFRS 15 across its material revenue streams to ensure it has sufficient information to allow with the standard. Early evaluation is advised as this may impact on final outturn reported in the financial statements, and budgetary implications.

Audit action

We will continue to work with management to understand the impact of the introduction of IFRS 9 and IFRS 15 on the NHS Highland's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the entity's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contract arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with the NHS Manual for Accounts and applicable accounting standards.

Additional planning considerations of wider scope for 2018/19

In accordance with the Audit Scotland Planning Guidance, we consider the following areas of focus as part of our audit work:

EU Withdrawal

There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019 and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for the Board.

Planning consideration

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact NHS Highland are: workforce implications; funding; and regulation. We will consider the work done by the board with regards assessing the potential risks faced and readiness for EU withdrawal.

Changing Landscape for public financial management

Recognising the changing landscape of Scottish public finances, including significant tax raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. This is likely to increase the scrutiny of public sector annual accounts and audit reports.

Planning consideration

The focus on public entities performance reporting will be under increasing security, including that of NHS Highland and how public funds are used. As part of our audit we will consider the extent to which the performance report provides an accessible account of NHS Highland's overall performance and impact of its public spending and transparency of reporting.

Dependency on key suppliers

The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We will consider the arrangements in place for identifying key supplier and risks, if any associated with these and how effectively these are being managed.

Planning consideration

We consider the risk to NHS Highland with regards key supplier dependencies as limited given the nature of operating activity. We will consider these arrangements during our audit.

Openness and transparency

There is an increased focus on how public money is used and what is achieved. This includes the extent to which the board keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.

Planning consideration

We will consider Audit Scotland's guidance around openness and transparency as we consider NHS Highland's governance arrangements during 2018/19.

Care income, financial assessments and financial guardianship

Audit Scotland have identified issues across a few local government audits which may indicate potential wider issues with the systems or processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship.

Planning consideration

We will consider the arrangements for financial assessment of those requiring care and whether there is potential backlogs in the reporting of these. We will complete an Audit Scotland questionnaire to provide intelligence on the extent to which staff undertake financial guardianship roles.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NHS Highland accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NHS Highland Management and the Audit Committee.

