

# External Audit Report for NHS Highland

Financial year ended 31 March 2021

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

26 July 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Board or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive Summary

This table summarises the key findings and other matters arising from the external audit of NHS Highland ('the Board') and the preparation of the group and Board's financial statements for the year ended 31 March 2021 for those charged with governance.

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## Financial Statements

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

- the group and Board's financial statements give a true and fair view of the financial position of the group and Board and the group and Board's net expenditure for the year;
- the group and Board's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (FRoM);
- the group and Board's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

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

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

Our audit work was completed remotely during May and June 2021. We have identified 8 unadjusted misstatements to the financial statements that have a net impact of £213,000 debit to the Statement of Consolidated Comprehensive Net Expenditure for the year.

Audit adjustments are detailed in Appendix 1 which also includes adjusted misstatements as well as disclosure corrections identified during our audit testing. We have also raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior year's audit are detailed in Appendix 3.

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

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

**Our audit opinion (audit report) is unmodified.**

# Executive Summary

## Wider scope audit

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

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks.

In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

## Financial management

The Board operated within its financial resource targets, achieving this while operating in a period of considerable uncertainty and responding to the operational and financial challenges in managing the impact of Covid-19 on service delivery. Scottish Government provided additional finance to health boards to support gaps in savings plans and also provide resource to implement the services required by each board for an effective COVID-19 response. NHS Highland received £57.3 million from Scottish Government in order to fund all costs associated with COVID-19 including funding to cover remobilisation of certain identified services, slippage on the Cost Improvement Programme during the year and the funding gap within Adult Social Care. The Scottish Government also provided additional funding of £8.8 million, equivalent to the original brokerage requirement identified for 2020/21.

At the start of 2020/21 the Board had an opening savings target of £28.9 million for 2020/21. £20.7 million of savings were delivered, £5.4 million of which were considered to be recurring savings. The £8.2 million of savings not achieved in-year was funded by Scottish Government.

## Financial sustainability

For 2021/22, the Scottish Government requested a one-year financial plan, reflecting the impact of Covid-19 on service delivery and finances. The financial plan has been built on the basis of a baseline uplift of 1.5% (£10.0 million) and a budgeted uplift of £16.4 million, which is NHS Highland's share of the £30.2 million being provided nationally to maintain Boards within 0.8% of NRAC parity. An estimate of COVID-19 costs for 2021/22 and beyond has been included within the Financial Plan, with these costs being identified separately from other pressures. The Board has assumed that separate funding will be provided in relation to COVID-19 costs in addition to their baseline allocation in 2021/22. The Board has recognised that elements of costs included within the Financial Plan may potentially become part of core services in the future but the longer term funding position is currently unclear. Total planned COVID-19 costs for 2021/22 is £29.0 million which includes key costs such as the vaccination programme (£5.4 million), test and protect (£1.2 million), hospital scale up costs (£3.4 million) and remobilisation costs (£2.3 million). The Financial Plan for 2021/22 requires £32.9 million of savings to be delivered through the Cost Improvement Programme ("CIP"). The associated savings plan is being developed through the Programme Management Office ("PMO") and is being monitored by the Financial Recovery Board. £25.1 million of savings are expected to be delivered via the PMO and a non-recurring savings target of £4.5 million has also been set with the remaining £3.3 million of savings expected to be achieved in relation to Adult and Social Care and delivered in partnership with Highland Council. The Board has acknowledged that the CIP developed is challenging and that there is a risk in relation to delivery. NHS Highland are not currently budgeting for a financial brokerage requirement from Scottish Government for the 2021/22 financial year. The Board also officially moved from Level 4 to Level 3 in the Scottish Government's NHS Scotland Performance Escalation Framework in June 2021, reflecting improvements in finance, governance, leadership, culture and mental health. Scottish Government will retain oversight of these areas to ensure that progress continues and the Board is focused on these priorities.

# Executive Summary

## Wider scope audit (continued)

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

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

### Governance and transparency

In 2020 development sessions were held to revise the existing Corporate Risk Register and to create a Board Risk Assurance Framework ("BRAAF"). Each risk on the BRAAF is owned by an Executive Director and is aligned to a Governance Group. The BRAAF was adopted by the Board in September 2020. Governance Groups now receive a report on the BRAAF's relevant risks, along with associated operational risks for discussion. Work has also begun to realign the existing operational risk registers to the new organisational structure. The Risk Management Strategy and Policy was revised during the year in line with the Board Risk Assurance Methodology. These were consulted on during December 2020 with the final strategy and policy submitted for approval by the Audit Committee. Risk Management and associated risk registers have been considered at governance committee meetings throughout 2020/21 including the Finance, Resources and Performance Committee, the Clinical Governance Committee and the Staff Governance Committee. Further work is required to review and redefine some of the risks and the escalation process within the BRAAF however it has been noted that this is being managed by the Risk Management Steering Group, the Executive Directors Group and the Governance Groups aligned to the risks identified in the BRAAF.

The Healing Process opened for registration in May 2020 and closed to new registrants on 31 March 2021, with 340 registrations having been received in total. As of May 2021, 136 Independent Review Panel outcomes had been approved by the NHS Highland Remuneration Committee, which included 118 recommendations for financial payment and 18 with no payment requested or recommended. All panel recommendations have been accepted to date. The 118 financial payment recommendations made totalled £1.7 million. The annual accounts reflect that as at 31 March 2021, 67 payments had been made totalling £1.1 million. £3.1 million has also been accrued in the annual accounts in relation to payments expected to be made to the remaining registrants, with the expectation that these cases will all conclude and be paid in 2021/22.

The costs of setting up, running and administering the process, including all elements other than the healing payments which have been incurred in 2020/21 were £1.1 million. The costs of healing payments and the costs of setting up, running and administering the process have been funded by Scottish Government in 2020/21. Further costs of running the process until all cases are concluded in early 2022 will also be funded by Scottish Government and will be recorded in the 2021/2022 accounts.

Temporary governance arrangements were agreed by the Board and in effect from April to July 2020 to enable the organisation to respond appropriately to COVID-19. The Board reviewed and ceased the temporary governance arrangements with effect from 1 July 2020. Meetings continue to be held virtually through MS Teams and other remote means until further notice.

# Executive Summary

## Wider scope audit (continued)

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In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

### Value for money

The Highland Council and NHS Highland entered into a Partnership Agreement in 2012, establishing the principle of, and arrangements for, service integration in relation to both children's and adult health and social care services within a lead agency model, with the Board taking responsibility for adult health and social care services and Highland Council taking responsibility for children's health and social care services. The Scheme was first approved by the Scottish Government in June 2015 and contains the agreement between NHS Highland and Highland Council for integration of health and social care services within the Highland Council area. Given the Integration Scheme was approved by the Scottish Government in June 2015, a revised scheme was required to be submitted by June 2020 in accordance with the legislation as the operative date is 5 years after the approval of the previous scheme by the Scottish Government. At the time of the Covid-19 pandemic outbreak, work was underway in relation to this matter but given the challenges around dealing with the pandemic, the Scottish Government agreed to an initial review by the original June 2020 deadline and a later submission of a revised Integration Scheme by 1 April 2021.

As required by the legislation, an initial review was undertaken, and it was noted that revisions were needed to the Scheme. On 25 March 2021, the Council agreed, in principle, the terms of the revised Integration Scheme and agreed to delegate responsibility for further amendments in relation to the Integration Scheme which are not considered to be material to the Chief Executives of both the Council and NHS Highland, as well as agreeing to consultation on the revised scheme. The Joint Monitoring Committee also received a report in March 2021, on the plans for seeking agreement in principle from both the Board and Council for a draft revised scheme.

The financial gap at the start of 2021/22 in relation to the partnership was £11.3 million and this was used as the basis of discussions between NHS Highland and The Highland Council. It was agreed that for 2021/22 this would be met as follows:

- £4.0 million – funding held by the Council for 2020/21 that was not required in 2020/21, to be provided instead in 2021/22;
- £2.0 million – contribution from NHS Highland;
- £2.0 million – contribution from The Highland Council; and
- £3.3 million – savings target for Adult Social Care, delivered in partnership with The Highland Council.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at NHS Highland. The scope of our audit was set out in our External Audit Plan which was shared with the Audit Committee on the 9 March 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of NHS Highland's annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money;
- Monitoring NHS Highland's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

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

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

## Responsibilities

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

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

## Adding value through our audit work

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

# Audit of the annual report and accounts

## Key messages and judgements

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

We have identified 8 unadjusted misstatements to the financial statements that have a net impact of £213,000 debit to the Statement of Consolidated Comprehensive Net Expenditure for the year. Audit adjustments are detailed in Appendix 1.

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

## Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

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

## The audit process

In accordance with our annual external audit plan our audit work commenced on 10th May 2021. We received the Performance Report, the Accountability Report, the Governance Statement and Remuneration Report and Staff Report on 24<sup>th</sup> May 2021 which was then subject to revision and review by management with a final version of draft annual accounts received 11<sup>th</sup> June 2021. The draft annual accounts are based on the Scottish Government Health and Social Care Directorate template accounts.

There were 4 audit adjustments to the draft primary financial statements. There were 8 unadjusted misstatements to the accounts. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of adjusted and unadjusted misstatements is detailed in Appendix 1.

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit Committee on 9 March 2021 and finalised and submitted 31 March 2021. We reviewed our planning assessment of materiality based upon your 2020/21 draft financial statements and concluded that materiality should remain at £10.70 million for Group (Board only £10.69 million), representing 1.01% of gross expenditure less IJB contributions. Performance materiality was set at £7.49 million for the Group (Board only: £7.48 million), representing 70% of our calculated materiality.

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

We applied a lower materiality threshold for disclosures within the Remuneration Report and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £5,000)

## Service auditors report

NHS Highland utilise a number of shared IT systems, IT applications and processes with other Scottish health boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements. The BDO service auditor report over National Single Instance (NSI) eFinancials was unqualified in 2020/21, consistent with 2019/20. During 2019/20 the service audit reports from KPMG on IT Services (National IT contract for services provided by ATOS Origin Alliance supporting eFinancials) and Payments to Primary Care Contractors were qualified however there has been improvement in the Service Audit Performance in respect of one of the two services, namely:

- IT – unqualified opinion, with an emphasis of matter to highlight the additional matters taken into consideration by the Service Auditor to achieve that opinion, and improvements required.

However a qualified opinion was once again issued in relation to Payments to Primary Care Contractors. Management have disclosed the qualification in the Governance Statement but do not consider the control deficiencies identified have an impact on the accuracy of the financial statements.

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

## Internal control environment

In accordance with ISA requirements we have developed an understanding of the Board's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

## NHS Highland's financial performance during 2020/21 – The Impact of Covid-19

NHS Highland delivered a break-even position in 2020/21, achieving a surplus of £0.7million against its Revenue Resource Limit. A breakeven position was also achieved against the Capital Resource Limit set.

However, despite realising a break-even position, NHS Highland continue to operate within a challenging financial environment. The Board started the year with an underlying savings gap of £37.7 million and had set a deficit budget of £8.8 million, resulting in a net savings target of £28.9 million for 2020/21. Scottish Government provided additional finance to health boards to support gaps in savings plans and also provide resource to implement the services required by each board for a COVID-19 response. In total NHS Highland received £57.3 million from Scottish Government in order to fund all costs associated with COVID-19 including funding to cover remobilisation of certain identified services, slippage on the cost improvement programme during the year and the funding gap within Adult Social Care. Instead of brokerage, the Scottish Government provided additional funding of £8.8 million, equivalent to the original brokerage requirement identified for 2020/21. Of the opening savings target of £28.9 million for 2020/21, £20.7 million of savings were delivered, £5.4 million of which were deemed to be recurring savings. The £8.2 million of savings which were not delivered were provided by Scottish Government as part of the COVID-19 £57.3 million funding package received from Scottish Government as described above.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over)/under £'000
Core Revenue Resource Limit	863,107	862,406	701
Non-core Revenue Resource Limit	23,356	23,356	0
Core Capital Resource Limit	54,617	54,617	0
Cash requirement	911,757	911,757	0

The total Capital Funding for NHS Highland for 2020/21 was decreased from an original £65.3 million to £54.6 million, as a result of the reduction in the planned expenditure on Skye, Badenoch and Strathspey Hospital Bundle and the Increased Maternity Capacity Scheme. COVID-19 impacted upon the delivery of these schemes and the revised position was agreed with Scottish Government. The revised Capital Resource Limit was used in full as shown in the table to the left. The main areas of investment were:

- New Skye, Badenoch and Strathspey Hospital Bundle £21.2 million
- National Treatment Centre - Highland £9.6 million
- Estates Backlog maintenance £2.6 million
- Equipment £4.1 million
- E-health £1.5 million.

A one year Financial Plan for 2021/22 has been submitted to Scottish Government. This will be revisited at the end of Quarter 2, reflecting the ongoing uncertainty around the impact of COVID-19 on delivery of the financial plan and associated funding allocations. The Financial Plan submitted requires £32.9 million of savings to be delivered through the Cost Improvement Programme, representing a savings target of 4.8% of baseline allocation for the Board. The savings plan is being developed through the Programme Management Office and monitored via the Financial Recovery Board.

In setting the budget the Board has assumed that additional funding will be received from Scottish Government in respect of NHS Highland's ongoing response to the pandemic and the subsequent remobilisation of services, and that funding will also be received in respect of the National Treatment Centre – Highland. An estimate of COVID-19 costs for 2021/22 and beyond has been included within the Financial Plan, with these costs being identified separately from other pressures. The Board has assumed that separate funding will be provided in relation to COVID-19 costs in addition to their baseline allocation. The Board recognised that elements of costs included within the Financial Plan may potentially become part of core services in the future but the longer term funding position is currently unclear. Total planned COVID-19 costs for 2021/22 is £29.0 million which includes key costs such as the vaccination programme (£5.4 million), test and protect (£1.2 million), hospital scale up costs (£3.4 million) and remobilisation costs (£2.3 million).

## Responding to significant financial statement risks

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

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

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.</p> <p>We consider those critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> <li>• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.</li> <li>• We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020.</li> <li>• Journals testing including: <ul style="list-style-type: none"> <li>• Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;</li> <li>• Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;</li> <li>• Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.</li> </ul> </li> </ul> <p><b>Conclusion</b></p> <p>Through audit procedures performed, we noted that there is no formal agreed journal review process and journals are not being reviewed consistently across Finance. We recommend that a formal journal review policy is drafted and approved, and that management agree to review journals posted using a risk based approach. A management action has been raised in Appendix 2 in relation to this. <b>Action plan point – 1.</b></p> <p>We can confirm however that we did not find evidence of management override of controls in our testing of journal transactions or any instances of material error. Furthermore we did not identify any indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.</p>

## Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>Risk of fraud in revenue recognition</b></p> <p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.</p> <p>The risk of management manipulation and fraud is deemed to be low in relation to income received via Revenue Resource Allocations direct from Scottish Government. Similarly funding from services commissioned from the IJB and revenue from other Scottish Boards is well forecast and is agreed to funding letters/inter-Board funding agreements, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. As such, we rebut the risk of fraud in revenue in relation to these income streams.</p> <p>However, in 2020/21 Health Boards are not facing significant external pressure to restrain budget overspends as a result of COVID-19, with continued financial support being provided to Health Boards by Scottish Government as a result of the pandemic. We have therefore not deemed it appropriate to rebut the presumed significant risk for material streams of “Other Income” received by NHS Highland (being income not received in the ways described above). Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to recognise Other Income in the next financial year, when financial support from Scottish Government may be less than that provided to NHS Highland in the current year. We will agree, on a sample basis, income and year end receivables from Other Income to invoice and subsequent cash receipt or other supporting evidence.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> <li>• Walkthroughs of the controls and procedures over Other Income;</li> <li>• Substantive testing of Other Income recognised during 2020/21 to confirm its occurrence, accuracy and completeness of recording;</li> <li>• Focused substantive testing of “Other Income” recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off; and</li> <li>• Review of accrued income and debtors (where material) to gain assurance over the occurrence and accuracy of these balances as at year end.</li> </ul> <p><b>Conclusion</b></p> <p>Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of Other Income recognised by NHS Highland during 2020/21. No exceptions were identified as a result of focused testing performed in relation to the risk of cut-off. As a result of our detailed testing of accrued income and debtors no exceptions were noted. As a result of our substantive procedures and sample testing we did not identify any income which was not in accordance with the nature of NHS Highland (regularity testing).</p>

## Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>Risk of fraud in expenditure recognition</b></p> <p>NHS Highland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area.</p> <p>NHS Highland's non-pay expenditure includes IJB contributions. As IJB contributions are agreed to third party confirmations at year end there is limited opportunity for manipulation of this expenditure and there is therefore no perceived risk of material misstatement due to fraud in this area.</p> <p>We therefore focus our risk on the following non-payroll expenditure streams: independent primary care services, drugs and medical supplies and other operating expenses (excluding IJB contributions). Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to recognise more expenditure in the current financial year due to receiving continued additional financial support from Scottish Government as a result of the COVID-19 pandemic, which may not be made available to NHS Highland in the next financial year.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> <li>• Walkthroughs of the controls and procedures over other operating expenditure streams;</li> <li>• Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording;</li> <li>• Focused substantive testing of Other Expenditure recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off;</li> <li>• Review of accruals and provisions, where material, around the year end to consider if there is any indication of overstatement or understatement of balances held at year end through consideration of accounting estimates; and</li> <li>• Unrecorded liability testing to confirm the completeness of year end liabilities as well as the completeness of expenditure recognised during the year.</li> </ul> <p><b>Conclusion</b></p> <p>Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of expenditure recognised by NHS Highland during 2020/21. No exceptions were identified as a result of focused testing performed in relation to the risk of cut-off.</p> <p>As a result of our detailed testing of accruals and provisions, 5 unadjusted audit differences to the financial statements were identified. The unadjusted audit differences have a net impact of £788,000 Credit to the Statement of Comprehensive Net Expenditure and are therefore considered both individually and cumulatively immaterial (a full listing of adjusted and unadjusted misstatements is detailed in Appendix 1).</p> <p>No exceptions were identified as a result of our unrecorded liability testing. As a result of our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the nature of NHS Highland (regularity testing).</p>

## Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>Valuation of property, plant and equipment (land and buildings)</b></p> <p>In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, the Board is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. There are further modifications to values depending on the nature and use of assets to ensure PPE is approximately stated. As at 31 March 2020, NHS Highland PPE of £359.8 million included Land and Buildings of £311.7 million. Given the value of PPE held by the Board and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. NHS Highland appoint professional valuers to undertake a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> <li>• Walkthroughs of the controls and procedures over the valuation of land and buildings;</li> <li>• Consideration of the arrangements in place at the Board for ensuring the carrying value of land and buildings remains appropriate and in accordance with IAS 16;</li> <li>• Evaluation of the competence, capability and objectivity of the Board’s professional valuers who represent management’s experts under ISA 500;</li> <li>• Testing the accounting entries processed by management in relation to the valuation to ensure these were in accordance with the Manual / FReM;</li> <li>• Testing the data and assumptions applied by management (and their experts) in producing the valuation estimate;</li> <li>• Review of the suitability of indices applied in the valuation of land and buildings including challenging the reasonableness of the rates applied;</li> <li>• Challenged management’s assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Board; and</li> <li>• Using our auditor’s valuation expert in order to challenge management’s expert as well as NHS Highland management around the valuation instructions issued and approach adopted by the Board in valuing land and buildings as at 31 March 2021.</li> </ul> <p><b>Conclusion</b></p> <p>Two recommendations were raised in relation to our audit work over land and buildings valuation as follows:</p> <ul style="list-style-type: none"> <li>• NHS Highland’s accounting policies state that valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. However it was noted as a result of our audit procedures that approximately £36 million of assets had not been revalued for a period of more than 5 years. Management confirmed that they are satisfied that as a result of indexation which has continued to be applied to these assets since their previous valuation, as well as through managements consideration of impairment in relation to assets which have not been professionally valued during 2020-21, that they are satisfied that these assets are not materially misstated or materially impaired. We are satisfied as a result of audit procedures performed that indexation has been applied to these assets since last being formally valued and that these asset values are not materially misstated as a result of our consideration of potential asset impairments, however we recommend that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the 5-year programme of professional valuations going forward. A management action has been raised in Appendix 2 in relation to this. <b>Action plan point – 2;</b> and</li> </ul>

## Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>Valuation of property, plant and equipment (land and buildings)</b></p>	<p><b>Conclusion (continued)</b></p>
<p>In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, the Board is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. There are further modifications to values depending on the nature and use of assets to ensure PPE is approximately stated. As at 31 March 2020, NHS Highland PPE of £359.8 million included Land and Buildings of £311.7 million. Given the value of PPE held by the Board and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. NHS Highland appoint professional valuers to undertake a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years.</p>	<ul style="list-style-type: none"> <li>It was noted that there are no formal terms of engagement in place between NHS Highland and its appointed valuers. The RICS Red Book states that this is a mandatory standard, with the details outlined within the Global Standards - VPS 1. It was noted that the original contract had expired and been extended on a rolling basis. This rolling extension, as well as subsequent correspondence between the appointed valuers and the Board may cover the majority of the minimum requirements for a terms of engagement document but the legislation is clear that, whilst the precise format of the terms of engagement may vary, valuers must prepare written terms of engagement for all valuation work completed. We recommend that going forward terms of engagement are prepared, reviewed and signed as agreed for all valuation work completed by appointed valuers. A management action has been raised in Appendix 2 in relation to this. <b>Action plan point – 3.</b> We recognise however that our external valuer confirmed that there was no reason to suggest that the valuation process had not been completed in line with the guidance, but that there was a requirement for formal terms of engagement to be written and agreed, in order that the process/requirements can be understood by someone with no prior knowledge of the subject asset, nor of the valuation process.</li> </ul> <p>In the prior year the Royal Institute of Chartered Surveyors (RICS) issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as ‘where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted. Due to the impact of Covid-19 on markets at that time, NHS Highland’s valuer reported their valuation advice on the basis of ‘material valuation uncertainty’ and an emphasis of matter paragraph was included within the independent audit report to highlight the matter to the reader of the accounts. Our audit opinion was not modified in respect of this matter. NHS Highland’s valuers have confirmed that as at 31 March 2021, while it is considered that there is a degree of market uncertainty, and thus valuation uncertainty, it is also considered that the uncertainty is not material. Accordingly the 2020/21 valuation of the Board’s land and buildings is not reported as being subject to “material valuation uncertainty” as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Our auditor’s expert has also confirmed that this commentary, in relation to the asset types within the portfolio, is in line with the wider view across the profession at 31 March 2021 and therefore is in line with their expectations. We have concluded that the view taken by the appointed valuers is appropriate. No emphasis of matter paragraph is therefore required to be included within the auditor’s opinion in relation to this matter in the current year.</p> <p>Based on our testing we conclude that PPE has been valued in accordance with IAS 16 and the FReM and that the assumptions adopted by management and their valuer are reasonable.</p>

## Detecting Irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Board and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of management and the Audit Committee, concerning the Boards' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Board's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Board's financial performance for the year and potential management bias in determining accounting estimates, especially in relation to the calculation of the Healing Process payments year end accrual (£3.1 million), the accrual in relation to IJB reserves (£4.0 million), holiday pay accrual (£5.5 million), FHS Practitioners accrual (£10.7 million) and the accrual in relation to a grievance raised by Unison in relation to Health Care Support Workers (£5.6 million). Our audit procedures and conclusion are documented within our response to the significant risk of management override of controls on page 11.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Board's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Board's control environment, including the policies and procedures implemented by the Board to ensure compliance with the requirements of the financial reporting framework.

## Significant estimates and judgements

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Clinical and Medical Negligence Costs (Clinical and Medical Claims against NHS Board - £17.8 million Participation in CNORIS - £32.4 million)</p>	<p>Employing health bodies in Scotland are responsible for meeting medical negligence costs up to £25,000. Costs above this threshold are reimbursed to Boards from a central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government. NHS Highland provide for all claims notified to the NHS Central Legal Office according to the value of the claim and the probability of settlement. Claims assessed as 'Category 3' are deemed most likely and provided for in full, those in 'Category 2' at 50% of the claim and those in 'category 1' as nil. The balance of the value of claims not provided for is disclosed as a contingent liability. This procedure is intended to estimate the amount considered to be the liability in respect of any claims outstanding and which will be recoverable from CNORIS in the event of payment by an individual health body. The corresponding recovery in respect of amounts provided for is recorded as a debtor and that in respect of amounts disclosed as contingent liabilities are disclosed as contingent assets. The Board has disclosed that reliance is placed on significant details provided by the Central Legal Office in order to establish the value of such a provision. NHS Highland also provides for its liability from participating in the scheme. The participation in CNORIS provision recognises the Board's respective share of the total liability of NHS Scotland as advised by the Scottish Government and based on information prepared by NHS Boards and the Central Legal Office. The movement in the provisions between financial years is matched by a corresponding adjustment in AME provision and is classed as non-core expenditure.</p>	<p>We have reviewed Clinical and Medical Claims against NHS Board and the Participation in CNORIS provisions and have confirmed that the amounts recognised are in accordance with the methods described in the accounting policy disclosed by NHS Highland as well as being in accordance with advice received from the Central Legal Office in relation to claims outstanding against the Board. As a result of our detailed testing of the clinical and medical negligence provisions, an unadjusted audit differences to the financial statements was identified. The unadjusted audit difference has a net impact of £nil to the Statement of Comprehensive Net Expenditure and is therefore considered immaterial (a full listing of adjusted and unadjusted misstatements is detailed in Appendix 1). We are satisfied that the provisions have been appropriately reflected in the financial statements.</p>	<p>●</p>

### Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Employee Benefits Accrual (Holiday Pay Accrual £5.5 million)</p>	<p>As disclosed in the annual accounts, the accrual is estimated on the basis of information provided by managers regarding outstanding annual leave as at 31 March 2021. The cost of annual leave not taken by employees at the end of the year is recognized in the financial statements to the extent that employees are permitted to carry-forward leave into the following year.</p>	<p>We are satisfied that the year end holiday pay accrual has been appropriately estimated and calculated, that the accrual is accurate and complete and we are satisfied that the accrual has been disclosed appropriately in the accounts.</p>	●
<p>Assessment of Leases</p>	<p>Leases are assessed under IFRS as being operating or finance leases, which determine their accounting treatment. The criteria for assessment are to a certain extent subjective, but a consistent approach has been taken using a standard template which sets out the relevant criteria.</p> <p>As at 31 March 2021 obligations under operating leases amounted to £7.3 million, obligations under finance leases amounted to £1.5 million and total obligations under on-balance sheet PFI/PPP contracts were £76.5 million in total.</p>	<p>We are satisfied that assessments of operating and finance leases have been appropriate and that disclosures have not been materially misstated.</p> <p>PFI obligations are measured at current value being the present value of the minimum lease payments. However, Board's are required to disclose the fair value of these arrangements. Currently, NHS Highland does not have sufficient information to provide this disclosure. Furthermore, there are opportunities to enhance the current accounting policy surrounding the recognition of PFI/PPP arrangements including at what point the assets are recognised as PPE; that the assets are measured initially at fair value or, if lower, at the present value of the minimum lease payment; contingent rent; and, lifecycle replacement. However the audit team are satisfied that the accounting recognition is appropriate and that the omissions do not materially impact the financial statements.</p>	●

## Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Pension Liability for The Highland Council Pension Fund used by Social Care staff transferred to NHS Highland</p> <p>(Other non cash costs – Asset Transfer (THC ASC Pension) £9.3 million)</p>	<p>As part of the terms and conditions of employment for the staff transferred from Highland Council, NHS Highland participates in the Local Government Pension Scheme administered by the Council. In accordance with Scottish Government Health and Social Care Directorates (“SGHSCD”) guidance, obligations under the defined benefit pension scheme are fully funded via Scottish Government funding in advance and therefore as a departure from IAS 19: Employee Benefits, the defined benefit obligations are not recognised as a long-term liability and instead recognised through other reserves as SGHSCD funding received in advance. Estimation of the liability to pay pensions for these staff depends on a number of complex judgements relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>Management has disclosed that reliance is placed on significant details provided by the actuary of the pension fund to establish the value of this liability.</p>	<p>NHS Highland recognise the cost of these retirement benefits in the Statement of Comprehensive Net Expenditure (SoCNE) when they are earned by employees, rather than when the benefits are paid as pensions. Highland Council recognise the liability at 1 April 2012 attributable to these NHS Highland staff in the Highland Council accounts. Any gain or shortfall in the value of the fund attributable to NHS Highland staff in year is charged to the SoCNE. The pension liabilities are subject to an annual actuarial IAS 19 valuation to arrive at the value of scheme assets and liabilities. As the arrangement is funded by Scottish Government both the impact of the IAS 19 valuation on service costs and actuarial remeasurements are funded through Annually Managed Expenditure funding in year. We have confirmed that NHS Highland received guidance issued by Scottish Government confirming that defined benefit obligations should be recognised through other reserves as SGHSCD funding received in advance and we have confirmed the appropriateness of the accounting treatment in relation to this matter.</p> <p>We have tested the accounting entries processed by management in relation to the actuarial valuation to confirm these are accurate and complete. We have tested the data and assumptions used in the actuarial valuation and we have challenged the reasonableness of the rates applied. We have evaluated the competence, capability and objectivity of the scheme's actuary who represent management's experts under ISA 500. We are satisfied that the pension liability has been appropriately reflected in the financial statements.</p>	

## Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property Plant and Equipment (Land and buildings, including dwellings - £311.3 million)</p>	<p>As at 31 March 2021, NHS Highland held PPE of £396.8 million including Land and Buildings (including Dwellings) of £311.3 million. NHS Highland appoint FG Burnett and Gerald Eve to undertake a rolling programme of valuations, valuing land and buildings at a minimum of once every five years.</p> <p>The Board's independent valuers are FG Burnett and Gerald Eve. The Board's valuers concluded that an indexation rate of 0% be applied to the land and building assets not formally revalued as at 31 March 2021. The net impact of the overall valuation was a net decrease of £2.4 million which was credited to the revaluation reserve. Impairment of £0.01 million was charged to the Statement of Comprehensive Net Expenditure and Summary of Resource Outturn.</p> <p>Management has disclosed that the estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year include property valuations. They have also confirmed and disclosed that they rely on the valuation information provided by their external valuer.</p>	<p>We have tested the accounting entries processed by management in relation to the valuation to ensure these were in accordance with the Manual / FReM. We have tested the data and assumptions applied by management (and their experts) in producing the valuation estimate and we have agreed the 0% indexation applied directly to the advice provided by the Board's valuer and we have challenged the reasonableness of the rate applied. We have evaluated the competence, capability and objectivity of the Board's professional valuers who represent management's experts under ISA 500. We have used our auditor's valuation expert in order to challenge management expert's advice as well as the Board's management around the valuation instructions issued to their external valuer and the approach adopted in valuing land and buildings as at 31 March 2021. We have challenged management's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Board.</p> <p>Two recommendations were raised in relation to our audit work over land and buildings valuations. Firstly we have recommended that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the 5-year programme of professional valuations going forward and secondly we have recommended that going forward terms of engagement are prepared, reviewed and signed as agreed for all valuation work completed by appointed valuers. A management action has been raised in Appendix 2 in relation to these matters. <b>Action plan point – 2 and 3 respectively.</b> We are satisfied that the revaluation has been appropriately reflected in the financial statements.</p>	<p>●</p>

## Significant estimates and judgements (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Pensions and Injury Benefit provision (Pensions &amp; Similar Obligations £10.1 million)</p>	<p>The Board has provided for estimated costs relating to pensions and provisions and reliance is placed on significant details provided by the Scottish Public Pensions Agency in order to establish the value of such provisions.</p> <p>The Board meets the additional costs of benefits beyond the normal National Health Service Superannuation Scheme for Scotland benefits in respect of employees who retire early by paying the required amounts annually to the National Health Service Superannuation Scheme for Scotland over the period between early departure and normal retirement date. The Board provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 0.10% in real terms. The Board expects expenditure to be charged to this provision for a period of up to 17 years.</p>	<p>We are satisfied that the provision has been appropriately calculated in accordance with the NHS Accounts Manual and has been agreed to third party supporting information and we are satisfied that the provision has been disclosed appropriately in the accounts.</p>	<p>●</p>

## Significant estimates and judgements (continued)

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

- Depreciation;
- Accrued income;
- Accruals; and
- Commitments Under PFI Contracts – On Balance Sheet.

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

- **Healing Process year end accrual (£3.1 million)** – Estimated accrual recognised as at 31 March 2021 in relation to Healing Process payments to be made in 2021/22. Estimate is based on the average Healing Process payment made to date by NHS Highland during 2020/21 and the number of remaining registrant cases that NHS Highland expect will conclude and be paid in 2021/22. We have reviewed management’s calculations in relation to this estimate;
- **2020/21 carry forward of IJB reserves (£4.0 million)** – Scottish Government (“SG”) confirmed in February 2021 that they would allocate further funding to NHS Boards and Health and Social Care Partnerships to cover ongoing costs in relation to COVID-19. Funding was allocated based on the financial position of health boards as reported to SG in January 2021. Whilst funding was allocated to NHS Boards, SG noted in their communication that they expected that the relevant funding shares be passed to Integration Authorities to ensure delivery of a balanced COVID-19 financial position. NHS Highland received a total Tranche 2 COVID-19 allocation of £24.0 million. Management’s year end 2021/22 carry forward accrual is amounts that NHS Highland have allocated to IJB reserves to ensure financial balance as instructed by SG. We have confirmed communication was issued by SG in relation to this matter as well as well as having obtained managements analysis of earmarked reserves;
- **Holiday pay accrual (£5.5 million)** – In January 2021, SG confirmed that due to NHS Scotland remaining on an emergency footing, the unprecedented service and workforce pressures and the increase in COVID-19 infections causing considerable additional pressure across the service, there was the possibility this would result in difficulties in allowing annual leave in some areas, for some staff groups. As such it was agreed that any member of staff on Agenda For Change (“AFC”) terms and conditions who had untaken annual leave as at 31 March 2021 would be allowed to carry their untaken annual leave forward to the 2021/22 annual leave year. The normal 5 day carry forward rule would not apply for staff who had been unable to take their annual leave because of the COVID-19 emergency. This is therefore largely the reason for the increase in the Holiday Pay Accrual in 2020/21, from £1.1 million as at 31 March 2020 to £5.5 million as at 31 March 2021. We have obtained management’s detailed accrual calculation based on individual staff members and their untaken annual leave as at 31 March 2021 and for a sample of staff members we have agreed information as per management’s calculation (e.g. untaken annual leave) to payroll records. We have also agreed other assumptions used in management’s calculation (such as pay uplift in 2021/22) to third party supporting documentation; and
- **Unison claim accrual (£5.6 million)** – grievance raised by Unison in respect of members who are Health Care Support Workers AFC Band 2 employees but are working beyond the skills and competencies they have been evaluated on (Band 3). The estimated accrual is the anticipated liability for NHS Highland across North Highland and Argyll and Bute areas. Management’s estimate is based on individual named employees. We have obtained management’s detailed accrual calculation based on individual staff members and for a sample of staff members we have agreed information as per management’s calculation to payroll records. We have also agreed other assumptions used in management’s calculation to third party supporting documentation.

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

## Other Areas of Judgement

Area of Judgement	Summary of management's approach	Audit Comments
<p>Personal Protective Equipment £12.6 million</p>	<p>There is a judgement and a degree of estimation over the personal protective equipment balance of £12.6 million. This amount relates to lateral flow testing kits and personal protective equipment, with the amount to be included in the accounts notified to NHS Highland by NSS.</p> <p>Whilst this is not significant enough to require disclosure in the Board's Accounting Policies, we have considered the judgements used to determine this balance for completeness.</p>	<p>We have reviewed the balance provided by NSS and the assessment performed by NSS's auditors, Audit Scotland, regarding the appropriateness of the calculation. We have relied on Audit Scotland's conclusion that the degree of estimation used in assessing processing costs was appropriate and reasonable and that the allocation of costs to Boards was accurate.</p> <p>We are satisfied that personal protective equipment has been appropriately reflected in NHS Highland's financial statements.</p>

## Other key elements of the financial statements

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

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Board's accounting policies, accounting estimates and financial statement disclosures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we have issued an unmodified opinion in this respect.
<b>Opinion on other aspects of the annual report and accounts</b>	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the National Health Service (Scotland) Act 1978 (the Act), and directions thereunder. We have audited the elements of the Remuneration Report and Staff Report , as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation. The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Act and directions made thereunder by the Scottish Ministers.

Issue	Commentary
<b>Governance statement</b>	<p>The Governance Statement is included within the Accountability Report. The Corporate Governance Report is set out on page 19 of the annual accounts. The report sets out how NHS Highland has been governed during 2020/21, including membership and organisation of its governance structures and how they support the achievement of the Board's objectives. The report includes the Directors' Report, the Statement of Board Members' Responsibilities and the Governance Statement and has been prepared in accordance with the FReM and NHS Scotland Manual for Accounts. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value. Through our audit work over the wider scope audit dimensions: financial management; financial sustainability; governance and transparency; and, value for money, we have considered the arrangements in place at the Board for securing Best Value.</p> <p>Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The Governance Statement reflects the assurances and conclusions reached by the Board's Internal Audit function in year.</p>
<b>Matters on which we report by exception</b>	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
<b>Written representations</b>	<p>A letter of representation has been received from the Board, including specific representations in respect of the Group. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for property, plant and equipment valuations, provisions and accruals.</p>
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom [Revised 2020]. The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Board meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management's assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>
<b>Regularity</b>	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>

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Issue	Commentary
<b>National Fraud Initiative</b>	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the health board, received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud should be investigated by 30 September 2021 and the results recorded on the NFI system.</p> <p>As part of our audit work in the current year we considered the progress made by NHS Highland in investigating matches. The matches for this exercise were released in January 2021 and management have confirmed that resource has yet to be identified to review the matches and report NHS Highland's progress to the Audit Committee. Over 6,000 matches have been identified and reported to the Audit Committee in March 2021. Management have confirmed that matches would be cleared by the September 2021 deadline, however given the limited progress made to date a management action has been raised in Appendix 2 in relation to this matter. <b>Action plan point - 4.</b></p>

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# Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified 3 significant wider scope risks in relation Financial Sustainability, Governance and Transparency and Value for Money. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Financial Management</b></p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p><b>No significant wider scope risks identified</b></p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Board's financial management arrangements.</p> <p>We have assessed the Board's financial performance in year (page 10). The Board operated within its financial resource targets, achieving this while operating in a period of considerable uncertainty and whilst responding to the operational and financial challenges in managing the impact of Covid-19 on service delivery.</p> <p>Scottish Government provided additional finance to health boards to support gaps in savings plans and also provide resource to implement the services required by each board for an effective COVID-19 response. NHS Highland received £57.3 million from Scottish Government in order to fund all costs associated with COVID-19 including funding to cover remobilisation of certain identified services, slippage on the Cost Improvement Programme during the year and the funding gap within Adult Social Care. Instead of brokerage, the Scottish Government provided additional funding of £8.8 million, equivalent to the original brokerage requirement identified for 2020/21.</p> <p>At the start of 2020/21 the Board had an opening savings target of £28.9 million for 2020/21. £20.7 million of savings were delivered, £5.4 million of which were deemed to be recurring savings. The £8.2 million of savings not delivered was funded by Scottish Government as part of the £57.3 million COVID-19 funding package described above.</p> <p>We also note that the Board also officially moved from Level 4 to Level 3 in the Scottish Government's NHS Scotland Performance Escalation Framework in June 2021, reflecting improvements in finance, governance, leadership, culture and mental health. Scottish Government will retain oversight of these areas to ensure that progress continues and the Board is focused on these priorities.</p> <p>As part of our financial statements audit, we have also considered the arrangements in place for monitoring and scrutiny of financial performance in year, including oversight from management and those charged with governance. This has included inquiry of management and review of minutes and papers and review of Internal Audit reports.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to NHS Highland's financial management arrangements.</p>

**Wider scope dimension****Wider scope risk identified in our audit plan****Wider scope audit response and findings****Grant Thornton conclusion****Financial sustainability**

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

**Significant risk identified:** Consideration of the medium to long term financial sustainability of NHS Highland. We will consider how Covid-19 has impacted on NHS Highland's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and whether changes to the underlying operating model have been embedded within the organisation including the extent to which the transformation programme is being delivered. We will focus on in-year financial performance and the level of brokerage support required from Scottish Government. This will include the role of the PMO function, cash and non-cash savings and medium term financial plans agreed with Scottish Government.

**Response to significant risk:**

For 2021/22, the Scottish Government requested a one-year financial plan, reflecting the impact of Covid-19 on service delivery and finances. We reviewed the plan for 2021/22 including the key assumptions and cost pressures which have been identified.

The financial plan has been built on the basis of a baseline uplift of 1.5% (£10.0 million) and a budgeted uplift of £16.4 million, which is NHS Highland's share of the £30.2 million being provided nationally to maintain Boards within 0.8% of NRAC parity. An estimate of COVID-19 costs for 2021/22 and beyond has been included within the Financial Plan, with these costs being identified separately from other pressures. The Board has assumed that separate funding will be provided in relation to COVID-19 costs in addition to their baseline allocation in 2021/22. The Board has recognised that elements of costs included within the Financial Plan may potentially become part of core services in the future but the longer term funding position is currently unclear. Total planned COVID-19 costs for 2021/22 is £29.0 million which includes key costs such as the vaccination programme (£5.4 million), test and protect (£1.2 million), hospital scale up costs (£3.4 million) and remobilisation costs (£2.3 million). The Financial Plan requires £32.9 million of savings to be delivered through the Cost Improvement Programme ("CIP"). The associated savings plan is being developed through the Programme Management Office ("PMO") and is being monitored by the Financial Recovery Board, see summary below:

2021/22	£'million
Baseline Uplift	26.4
Anticipated Additional Allocations	26.1
<b>Additional Resource</b>	<b>52.5</b>
Pressures b/f from earlier years	(34.3)
Pay uplifts 2021/22	(13.0)
Inflation uplifts 2021/22	(15.7)
Non-COVID 19 Cost Pressures	(0.7)
Additional Pressure Associated With Remobilisation	(21.7)
<b>Total Pressures</b>	<b>(85.4)</b>
<b>REQUIRED SAVINGS</b>	<b>(32.9)</b>

NHS Highland have considered their financial sustainability for 2021/22, in line with Scottish Government requirements, incorporating key assumptions and risks. In addition, the impact of Covid-19 on financial plans in future years has been considered.

The Board has acknowledged that the CIP developed for 2021/22 is challenging and that the risk around delivery should be recognised. NHS Highland are not currently budgeting for a financial brokerage requirement from Scottish Government for the 2021/22 financial year.

We have not identified any significant risks in relation to NHS Highland's financial sustainability arrangements.

**Wider scope dimension****Financial sustainability (Continued)**

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

**Wider scope risk identified in our audit plan**

**Significant risk identified (Continued):** Consideration of the medium to long term financial sustainability of NHS Highland. We will consider how Covid-19 has impacted on NHS Highland's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and whether changes to the underlying operating model have been embedded within the organisation including the extent to which the transformation programme is being delivered. We will focus on in-year financial performance and the level of brokerage support required from Scottish Government. This will include the role of the PMO function, cash and non-cash savings and medium term financial plans agreed with Scottish Government.

**Wider scope audit response and findings****Response to significant risk (Continued):**

It is anticipated that the savings will be delivered via the following workstreams:

2021/22	£'million
Managed via PMO	25.1
Adult Social Care – delivered in partnership with Highland Council	3.3
Non-recurring	4.5
<b>TOTAL</b>	<b>32.9</b>

In setting the budget it has been assumed that additional funding will be received from Scottish Government in respect of NHS Highland's ongoing response to the pandemic and the subsequent remobilisation of services and that funding will also be received in respect of the National Treatment Centre – Highland. During 2020/2021 financial support was also provided by Scottish Government in respect of slippage against the CIP recognising the impact that COVID-19 had on delivery, however the Board are not anticipating similar flexibility in 2021/2022 in relation to savings slippage. The Board acknowledge that the CIP developed is challenging and that the risk around delivery should be recognised. NHS Highland are not currently budgeting for a financial brokerage requirement from Scottish Government for the 2021/22 financial year.

**Grant Thornton conclusion**

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Governance and transparency</b></p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Significant risk identified:</b></p> <p><b>Risk Management</b> continues to be a key area of focus for NHS Highland and was identified in PAPLS discussions in November 2020. We will review NHS Highland's current Risk Management arrangements to ensure that risk management has been embedded across all areas and levels within NHS Highland and that NHS Highland are working uniformly in the management of risk.</p> <p>The Healing Process is an agreed action arising as a result of the Sturrock Report and was agreed by the Board in March 2020. In May 2020 the Board approved to launch the Healing Process with immediate effect and to allow applications to commence. We will consider the progress made by NHS Highland in relation to the Healing Process.</p>	<p><b>Response to significant risk:</b></p> <p>In 2020 development sessions were held to revise the existing Corporate Risk Register and to create a Board Risk Assurance Framework ("BRAAF"). Each risk on the BRAAF is owned by an Executive Director and is aligned to a Governance Group. The BRAAF was adopted by the Board in September 2020. Governance Groups now receive a report on the BRAAF's relevant risks, along with associated operational risks for discussion. Work has also begun to realign the existing operational risk registers to the new organisational structure. The Risk Management Strategy and Policy was revised during the year in line with the Board Risk Assurance Methodology. These were consulted on during December 2020 with the final strategy and policy submitted for ratification by the Audit Committee. Risk Management and associated risk registers have been considered at governance committee meetings throughout 2020/21 including the Finance, Resources and Performance Committee, the Clinical Governance Committee and the Staff Governance Committee. We note through our review of meeting minutes that further work is required to review and redefine some of the risks and the escalation process within the BRAAF however we are satisfied that this is being managed by the Risk Management Steering Group, the Executive Directors Group and the Governance Groups aligned to the risks identified in the BRAAF.</p> <p>The Healing Process opened for registration in May 2020 and closed to new registrants on 31 March 2021, with 340 registrations having been received in total. As of May 2021, 136 Independent Review Panel outcomes had been approved by the NHS Highland Remuneration Committee, which included 118 recommendations for financial payment and 18 with no payment requested or recommended. All panel recommendations have been accepted to date. The 118 financial payment recommendations made totalled £1.7 million. The annual accounts reflect that as at 31 March 2021, 67 payments had been made totalling £1.1 million. £3.1 million has also been accrued in the annual accounts in relation to payments expected to be made to the remaining registrants, with the expectation that these cases will all conclude and be paid in 2021/22.</p> <p>The costs of setting up, running and administering the process, including all elements other than the healing payments which have been incurred in this financial year were £1.1 million. The costs of healing payments and the costs of setting up, running and administering the process have been funded by Scottish Government in 2020/21. Further costs of running the process until all cases are concluded in early 2022 will also be funded by Scottish Government and will be recorded in the 2021/2022 accounts.</p>	<p>Through audit procedures performed we note that further work is required to review and redefine some of the risks and the escalation process within the BRAAF however we are satisfied that this is being managed by the Risk Management Steering Group, the Executive Directors Group and the Governance Groups aligned to the risks identified in the BRAAF.</p> <p>We have reviewed Healing Process payments made, amounts accrued for future Healing Process payments, the costs of setting up, running and administering the process in the current year and the disclosure in relation to the Healing Process within the Board's Performance Report. We requested a disclosure adjustment, requiring disclosure of further detail in relation to the costs incurred by NHS Highland in relation to the Healing Process in 2020/21 as well as anticipated Healing Process payments to be made in 2021/22. This has now been disclosed within the Performance Report as outlined in Appendix 1. No significant risks in relation to the Healing Process have been identified.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Governance and transparency</b></p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Significant risk identified:</b></p> <p>We will, as set out in the planning guidance, lastly consider how NHS Highland has maintained good governance throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic.</p>	<p><b>Response to significant risk:</b></p> <p>As noted in the prior year, temporary governance arrangements were agreed by the Board and in effect from April to July 2020 to enable the organisation to respond appropriately to COVID-19. The Board agreed to delegate governance of NHS Highland for an initial period of three months to the Board Chair, Vice Chair and Chief Executive, with another Non-Executive Director and Deputy Chief Executive acting as substitutes. It was agreed that monthly Board meetings would proceed but with a focus on COVID-19 and any related nationally important matters or governance matters brought forward from the Chairs' Group. Other meetings to proceed were the fortnightly meetings of the Board and Committee Chairs Group with the Chief Executive, weekly meetings of the Chair, Vice Chair, CEO and Deputy CEO, and continued weekly meetings of Chair and Chief Executive as per normal practice. The new temporary governance arrangements also proposed the suspension of all Committee meetings, with the exception of the Audit and Remuneration Committees which it was agreed would meet at the discretion of their respective Chairs.</p> <p>The Board reviewed and ceased the temporary governance arrangements with effect from 1 July 2020. Meetings continue to be held virtually through MS Teams and other remote means until further notice.</p> <p>We have not identified any further risks or significant deficiencies in governance arrangements, leadership and decision making at the Board.</p>	<p>Through our audit procedures performed we have not identified any significant risks or deficiencies in relation to NHS Highland's arrangements for ensuring appropriate governance and transparency. We are comfortable the decisions taken during the Covid-19 pandemic have been reported and approved by the Board as expected.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Value for money</b> Value for money is concerned with using resources effectively and continually improving services.</p>	<p><b>Significant risk identified:</b> NHS Highland is the lead agent for the delivery of adult services across Health and Social Care and the Highland Council is the lead agency for Children's Services. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP). NHS Highland has previously highlighted the unsustainable financial position of the current financial arrangement underpinning the model of social care where there exists a sizeable discrepancy in the funds NHS Highland receives from the Highland Council and the costs that NHS Highland incurs in delivering the Council's Adult Social Care functions. The Integration Scheme and Partnership Agreement was due for renewal at the end of June 2020 with agreement to be reached as to how the financial gap of £9.5 million would be funded and an appropriate level of funding to be agreed for Adult Social Care going forward. We will review the agreements made in relation to this matter as well as the impact on the 2020/21 financial outturn and the planned future impact upon NHS Highland.</p>	<p><b>Response to significant risk:</b> The Highland Council and NHS Highland entered into a Partnership Agreement in 2012, establishing the principle of, and arrangements for, service integration in relation to both children's and adult health and social care services within a lead agency model, with the Board taking responsibility for adult health and social care services and Highland Council taking responsibility for children's health and social care services. In 2014, subsequent legislation resulted in the development of the Integration Scheme, which carried forward these arrangements. The Scheme was first approved by the Scottish Government in June 2015 and contains the agreement between NHS Highland and Highland Council for integration of health and social care services within the Highland Council area. The arrangements were therefore put in place in 2012, and updated in 2015. Given the Integration Scheme was approved by the Scottish Government in June 2015, a revised scheme was required to be submitted by June 2020 in accordance with the legislation as the operative date is 5 years after the approval of the previous scheme by the Scottish Government. At the time of the Covid-19 pandemic outbreak, work was underway in relation to this matter but given the challenges around dealing with the pandemic, the Scottish Government agreed to an initial review by the original June 2020 deadline and a later submission of a revised Integration Scheme by 1 April 2021.</p> <p>As required by the legislation, an initial review was undertaken, and it was noted that revisions were needed to the Scheme. Discussions took place between NHS Highland and The Highland Council and work is now complete on a draft revised successor Integration Scheme. On 25 March 2021, the Council agreed, in principle, the terms of the revised Integration Scheme and agreed to delegate responsibility for further amendments in relation to the Integration Scheme which are not considered to be material to the Chief Executives of both the Council and NHS Highland, as well as to consultation on the revised scheme. The Joint Monitoring Committee also received a report in March 2021, on the plans for seeking agreement in principle from both the Board and Council for a draft revised scheme.</p> <p>The financial gap at the start of 2021/22 was £11.3 million and this was used as the basis of discussions between NHS Highland and The Highland Council. It was agreed that for 2021/22 this would be met as follows:</p> <ul style="list-style-type: none"> <li>• £4.0 million – funding held by the Council for 2020/21 that was not required in 2020/21, to be provided in 2021/22 instead;</li> <li>• £2.0 million – contribution from NHS Highland;</li> <li>• £2.0 million – contribution from The Highland Council; and</li> <li>• £3.3 million – savings target for Adult Social Care, delivered in partnership with The Highland Council.</li> </ul>	<p>We note that a draft revised successor Integration Scheme is now in place and agreement has been reached in relation to funding of the 2021/22 financial gap of £11.3 million between NHS Highland and The Highland Council.</p> <p>We have not identified any further risks or significant deficiencies in relation to lead agency and partnership working arrangements within the Board.</p>

# Appendices

# 1. Audit Adjustments

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

## Impact of adjusted misstatements

We can confirm that there were 4 adjusted misstatements greater than £250,000 during the 2020/21 audit. These have been updated in the final annual report and accounts.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Misclassification of receivables between accrued income and other public sector receivables:		
Dr Accrued income		2,950
Cr Other Public Sector Receivables		(2,950)
Adjustment to reflect personal, protective equipment (Note 1)		
Dr Other operating expenditure- drugs and medical supplies	12,633	
Dr Operating income - donated assets	(3,695)	
Cr General Fund		(8,938)
Reclassification of long term funding received in advance in relation to THC IAS 19 funded pension obligation		
Dr Other payables < 1 year		5,918
Cr Oher payables > 1 year		(5,918)
Being recognition of the Boards share of A&B IJB's reserve and operating result for 2020/21 (Note 2)		
Dr Investments		3, 293
Cr Share of Associates/JV results	(3,293)	
<b>Overall impact</b>	<b>5,645</b>	<b>(5,645)</b>

Note 1 – An adjustment in relation to personal protective equipment has been raised, recognising the late revision for NHS Boards to account for the stock procured centrally as an agent. NHS Highland received personal protective equipment and community testing kits from NSS which is required to be accounted as a non-monetary grant and expense, reflected in the Boards expenses with a corresponding increase to RRL funding. In addition, the Board received lateral flow testing kits from the UK Government, which were required to be accounted for as a donation with these being recognised as an expense. This adjustment had no impact on the Board's outturn position as it impacted funding and expenditure equally.

Note 2 - No share was recognised in 2019/20. Share for 2019/20 was £303k. As such, £303k has been recognised in the current year alongside current year results of the IJB to ensure full reserve entitlement recognised. Amounts relating to 2019/20 are immaterial.

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Net Expenditure £000's	Statement of Financial Position £000's
Balance sheet reclass of high cost drug advances recorded within FHS accrual to prepayments:		
Dr Prepayments		6,039
Cr FHS Accrual		(6,039)
Reclassification of settled CNORIS claim from CNORIS provision to Other Payables:		
Dr Clinical and Medical Claims against NHS Board		4,342
Cr Other Payables		(4,342)
Elimination of deduction granted to Highland Council from ASC Quantum:		
Dr Receivables – Other receivables < 1 year		407
Cr Receivables – Other public sector bodies > 1 year		(407)
Reclassification of IAS 19 entries between operating expenditure and staff costs with costs falling within scope of employee benefits:		
Dr Staff costs	3,263	
Cr Operating expenditure	(3,263)	
Adjustment to reflect the difference between the FHS accrual as at 31 March 2021 and the actual costs received post year end		
Dr Operating expenditure	965	
Cr FHS Accrual		(965)
Judgemental audit adjustment – £6,667 accrual selected via sample testing and found to be an error. Extrapolated judgemental audit adjustment:		
Dr Accruals		1460
Cr Operating expenditure	(1,460)	
Judgemental audit adjustment – £40,195 accrued income sample selected via sample testing and found to be an error. Extrapolated judgemental audit adjustment:		
Dr Operating income		
Cr Receivables – Other public sector bodies < 1 year	1,001	(1,001)
Adjustment for A&B staff included within both A&B & NHS H Unison accrual		
Dr Other payables		293
Cr Staff costs (Nursing & midwifery)	(293)	
<b>Overall impact</b>	<b>213</b>	<b>(213)</b>

## Misclassification and disclosure changes

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

Disclosure	Auditor recommendations	Adjusted?
Healing Process	Requested that management disclose further detail in relation to the costs incurred by NHS Highland in relation to Healing Process payments made during 2020/21, accruals made for anticipated Healing Process payments to be made in 2021/22 and the costs of setting up, running and administering the process during 2020/21. Disclosure now included within the Performance Report.	Yes
Statement of Cash Flows	No elimination of the effect of capital payables on trade payables when computing movements in working capital to be applied to net expenditure in reaching net cash flows from operating activities and therefore not in compliance with the Accounts Manual/ FReM.	Yes
Audit Fee	Audit fee disclosed in Note 3b initially disclosed the same amount for both Board only and Consolidated at £188k. Board only and Consolidated included the Patients and Clients Funds audit fee of £4k. This has now been removed and the Board only audit fee is disclosed correctly as £184k, with Consolidated continuing to be disclosed as £188k.	Yes
Statement of Consolidated Comprehensive Net Expenditure	<p>IAS 1 requires that the Statement of Consolidated Comprehensive Net Expenditure (SoCCNE) include line items that present interest revenue and finance costs. Under the NHS Scotland accounts template, these items are not separately identified on the grounds of materiality. NHS Highland, in following the accounts template, have also not separately disclosed these items on the SoCCNE. Furthermore we note that IAS 1 has specific disclosure requirements in relation to the primary financial statements. We found that the Board's accounts did not comply with the disclosure requirements of IAS 1 in relation to the following disclosures:</p> <ul style="list-style-type: none"> <li>- 'Actuarial change in local government pension' should be described as 'remeasurement of the net defined benefit liability';</li> <li>- The statement should include disclosure of interest and revenue finance costs. However, the Board, in following the NHS Manual for Accounts includes these in operating costs; and</li> <li>- Items included in 'other comprehensive net expenditure' should be split between those that will not be / may be reclassified to 'net operating expenditure (profit / loss)'</li> </ul> <p>however we do not deem this to be material.</p>	No

## Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Financial Instruments	Trade receivables and cash and cash equivalents are disclosed as being measured at fair value through the OCI as opposed to being measured at amortised cost. Difference is however not deemed to be material.	No
Property, Plant and Equipment	The financial statements currently refer to fair value in reference to the valuation of land and buildings. While this follows the Manual for Accounts, it is inconsistent with HM Treasury FReM where the definition should be current value. However we do not deem this to be material to the financial statements.	No
CETV Calculation	The CETV pension information for one of the NHS Executive Directors was not available at the time of collating the financial statements (was also outstanding from the prior year). The information is received from the Scottish Public Pensions Agency. NHS Highland have included disclosure in the accounts that the information was not available and given the circumstances, we do not deem this to be material to the financial statements.	No
PPP/PFI Disclosures	PFI obligations are measured at current value being the present value of minimum lease payments. However, Board's are required to the disclose the fair value of these arrangements. Currently, NHS Highland does not have sufficient information to provide this disclosure. Furthermore, there are opportunities to enhance the current accounting policy surrounding the recognition of PFI/PPP arrangements including at what point the assets are recognised at PPE; that the assets are measured initially at fair value or, if lower, at the present value of the minimum lease payment; contingent rent; and, lifecycle replacement. However we do not deem this to be material to the financial statements.	No
Pension fund arrangements	The movement in the Statement of Comprehensive Consolidated Net Expenditure requires updating to use appropriate terminology in accordance with IAS 19 to describe the actuarial movements and pension costs through the financial statements. The defined benefit disclosures also do not include required disclosure around sensitivity analysis, asset management strategy or weighted average duration of liabilities. However we do not deem this to be material to the financial statements.	No
Accounting Policies	Accounting policies do not explicitly refer to IFRS 15 and some of the description of the deferral of income is inconsistent with the requirements of the standard and out of date. In addition, the accounting policy for impairment does not define how impairment is considered in accordance with the methodology outlined within the FReM and IFRS 9. However we do not deem this to be material to the financial statements.	No

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 Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Significant judgements and estimates	<p>NHS Highland currently disclose significant estimates and judgements within Note 1.29 to the financial statements. However, per IAS 1 there should be distinction between material estimation uncertainty and significant judgements. In addition, the disclosed amounts did not always meet the definition of a significant estimate or judgement or the disclosure requirements of IAS 1. From review of the estimates and judgements disclosure, there are a number of disclosures the audit team would not consider to be either a significant judgement that could have a material impact on the accounts or an area of estimation where there is a risk of material misstatement. In particular, we would not consider the employee benefits accrual or the assessment of leases to meet these definitions given the nature and value of arrangements held. Furthermore, clinical and medical negligence costs are individually assessed by the Central Legal Office based on a professional judgement and therefore we would challenge as to whether there was a material estimation uncertainty. However we do not deem this to be material to the financial statements.</p>	No

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## 2. Action plan and recommendations

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

Recommendation	Agreed management response
<p><b>1. Review of Journals</b></p> <p>Through audit procedures performed, we noted that there is no formal journal review process in place and that journals are not being reviewed in a consistent manner across Finance.</p> <p>We recommend that a formal journal review policy is drafted and approved, and that management review journals posted using an agreed, risk based approach which is adopted across all areas of Finance. Spot checks should be performed to confirm that journals are being reviewed in line with the agreed policy.</p>	<p><b>Management response:</b> Policy to be developed and agreed.</p> <p><b>Action owner:</b> Head of Financial Services</p> <p><b>Timescale for implementation:</b> October 2021</p>
<p><b>2. Programme of professional valuations (land and buildings)</b></p> <p>NHS Highland's accounting policies state that valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. It was noted as a result of our audit procedures that approximately £36 million of assets had not been revalued for a period of more than 5 years. Management confirmed that they are satisfied that these assets are not materially misstated or impaired and we are satisfied as a result of our audit procedures that these assets have not been materially misstated within the Annual Accounts, however we recommend that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the 5-year programme of professional valuations going forward, in line with their accounting policy.</p>	<p><b>Management response:</b> A thorough review of assets to be valued at each stage in the 5 year valuation cycle will be undertaken to ensure that all land and buildings assets are revalued within the period. We will continue to identify assets where the value may be materially affected by significant work, unforeseen events, outstanding maintenance or obsolescence and highlight the need for such assets to be part of the revaluation schedule.</p> <p><b>Action owner:</b> Deputy Director of Finance</p> <p><b>Timescale for implementation:</b> March 2022</p>
<p><b>3. Professional valuers and terms of engagement</b></p> <p>It was noted through audit procedures performed that there are no formal terms of engagement in place between NHS Highland and its appointed valuers of land and buildings. The RICS Red Book states that this is a mandatory standard, with the details outlined within the Global Standards - VPS 1. It was noted that the original contract had expired and been extended on a rolling basis. This rolling extension, as well as subsequent correspondence between the appointed valuers and the Board may cover the majority of the minimum requirements for a terms of engagement document but the legislation is clear that, whilst the precise format of the terms of engagement may vary, valuers must prepare written terms of engagement for all valuation work completed.</p> <p>We recommend that going forward terms of engagement are prepared, reviewed and signed as agreed for all valuation work completed by appointed valuers.</p>	<p><b>Management response:</b> A review of the existing terms of engagement will be undertaken with potential to go out to tender for 2021/22.</p> <p><b>Action owner:</b> Director of Finance</p> <p><b>Timescale for implementation:</b> January 2022</p>

## Recommendation

### 4. National Fraud Initiative (“NFI”)

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

## Agreed management response

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

**Action owner:** Fraud Liaison Officer

**Timescale for implementation:** September 2021

# 3. Follow up of 2019/20 recommendations

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

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## Long term receivables

NHS Highland recoup part of the costs incurred in the delivery of residential care services through amounts collected from the sale of a client's property. The amounts can often take a number of years to recover. Management forecast the likely level of revenue that will be recovered through consideration of local property market and likelihood of recovery. However, the current receivable balance of £4 million is not based on the present value of estimated future cash receipts and therefore not reflective of its current value. While not material to the financial statements, we recommend management review the basis of recognition of this revenue stream.

**Responsible officer:** Head of Area Accounting

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

**Timescale for implementation:** March 2021.

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

**Revised implementation date:** March 2022

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## Financial Management and Sustainability

NHS Highland should look to address the reliance on locum and agency staff in order to achieve long term financial sustainability. This could be supported by the Attraction, Recruitment and Retention Strategy currently under development which intends to build a resilient workforce with the right skills in the right locations.

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

**Initial management response:** This has long been recognised as an area for improvement. As well as the Attraction strategy, medical workforce is a specific workstream within the financial recovery programme board led by the medical director with a key theme being the reduction on the reliance of locums. Further, resource from within HR has been identified to focus upon the improvements required to deliver the strategy.

**Timescale for implementation:** March 2021

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

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

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

**Revised implementation date:** December 2021.

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### Highland Council Lead Agency Model

Since 1 April 2012, health and social care in the Highland region has been formally integrated through the lead agency model rather than via the Integration Joint Board model. The Integration Scheme and Partnership Agreement is due for renewal at the end of June 2020 and discussions have taken place to agree how the financial gap of £9.5 million will be funded and an appropriate level of funding for Adult Social Care going forward. Discussions have sought to best resolve the financial issues between NHS Highland and The Highland Council and ensure the most appropriate structure is in place. This is ongoing and the outcome will ultimately impact on 2020/21.

**Responsible officer:** Director of Finance

**Initial management response:** Discussions with THC and SG have tentatively resumed with regards to resolving this recognising that the covid pandemic has delayed progress. The current agreement remains in place and it anticipated that discussion will resume in the coming months with a revised agreement in place by the end of September.

**Timescale for implementation:** September 2020

**Follow up:** CLOSED - Revised integration scheme has been agreed by both organisations including a one year financial agreement and risk share. A joint PMO and Programme Board has been established to monitor and scrutinise progress against delivery of savings and transformation targets.

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### Senior Leadership Stability

NHS Highland would benefit greatly from a period of sustained stability in its leadership to ensure continuity in its direction and operations. In establishing a stable leadership team, NHS Highland should consider the development of a senior leadership succession plan supporting how they build capacity and capability within the team going forward.

**Responsible officer:** Director of HR

**Initial management response:** Agreed.

**Timescale for implementation:** March 2021

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

**Revised implementation date:** December 2021.

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# 4. Follow up of 2018/19 recommendations

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

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## Financial Management

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

**Responsible officer:** Director of Finance

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

**Revised implementation date:** March 2021

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

**Revised implementation date:** March 2022

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## Leadership and capacity

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

**Responsible officer:** Director of Finance

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

**Revised implementation date:** October 2021

**Follow up:** CLOSED - Substantive PMO director now in place with short term mentoring from previous incumbent. Recruitment of vacant team members has been successful and PMO will be fully staffed for the majority of 2021/22.

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## Governance Arrangements

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

**Responsible officer:** Board Secretary

**Management's follow up response in 2019/20:** NHS Highland has made good progress in implementing the Action Plan associated with the Blueprint for Good Governance. As at April 2020, 8 of the 14 actions had been fully completed. Of the 6 remaining outstanding actions, 1 had been partially completed with progress deferred until post-Covid, 4 were in development and 1 not yet completed. It is important that there is momentum applied to progress these outstanding actions to ensure the governance framework in place is effective, transparent, and applied consistently throughout the organisation in line with the Blueprint for Good Governance.

**Revised implementation date:** March 2021

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

**Revised implementation date:** March 2022

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## Governance – Audit Committee

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

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

**Management's follow up response in 2019/20:** NHS Highland has made considerable changes to governance arrangements throughout the year. We have also observed significant changes in the functioning of the Audit Committee including scrutiny of Internal Audit reports and challenge of the Leadership Team. This process will take time to embed and it is important that there continues to be self-reflection and assessment of the committee to ensure that it operates in an efficient and effective manner.

**Revised implementation date:** March 2021

**Follow up:** CLOSED - Membership of the Audit Committee was revised during 2019/20 and during 2020/21. The Committee now has a full complement of members and has co-opted an individual with specific audit experience during 2020/21. The Committee has also established greater rigour around implementation of Internal Audit recommendations.

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## Risk Management

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

**Responsible officer:** Chief Executive Officer

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

**Revised implementation date:** October 2020

**Follow up:** Closed – Grant Thornton have reviewed Risk Management as part of our response to Wider Scope risks. Through audit procedures performed we noted that further work is required to review and redefine some of the risks and the escalation process within the Board's Risk Assurance Framework ("BRAAF") however we are satisfied that this is being managed by the Risk Management Steering Group, the Executive Directors Group and the Governance Groups aligned to the risks identified in the BRAAF and as such this point is closed.

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# 5. Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	158,730
Pooled costs	17,110
Contribution to Audit Scotland costs	7,850
Contribution to Performance Audit and Best Value	Nil
<b>2020/21 Fee</b>	<b>183,690</b>

## Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

## Client service

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

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## Independence and ethics

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

# 6. Communication of audit matters

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

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

