

NHS Highland

Financial year ending 31 March 2022

Final External Audit Plan

25 March 2022



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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 audit planning 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 organisation 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.

Plan overview

The audit plan sets out our risk based audit approach for NHS Highland. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit Committee on behalf of the Board) and will be shared with Audit Scotland.

01 Materiality

We have calculated Group planning materiality using prior year gross expenditure less IJB contributions as per audited 2020-21 financial statements as our benchmark, resulting in the following:

- £10.706 million planning materiality (NHS Highland only – £10.699 million). Performance materiality of £7.494 million is based on 70% of planning materiality (NHS Highland only – £7.489 million) and trivial is capped at £250,000 for both Group and NHS Highland.
- Lower materiality of £25,000 will be used on our audit of the Remuneration and Staff Report.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2021/22.

02 Financial statement audit risks

At planning, in accordance with the ISA's (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240);
- Risk of fraud in income recognition – Other income (cut-off) (ISA UK 240)
- Risk of fraud in expenditure recognition – non payroll expenditure (cut-off) (FRC PN10);
- Valuation of land and buildings (valuation); and
- Valuation of LG defined benefit pension scheme (valuation).

03 Wider Scope Audit

In accordance with the Code, our planning considers the wider scope areas of audit. We have identified three wider scope risks and will conclude on these during the audit:

- Financial management – achieving break even position as at 31 March 2022;
- Financial sustainability – future financial plans for 2022/23 and beyond;
- Governance and transparency – the Healing Process and Culture Plan;
- Value for Money – Remobilisation Plan.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for Audit Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland, Audit Scotland data sets and opinion to support the consolidation at a Scottish Government level.
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Audit Scotland with NHS Highland in December 2021. Our fee agreed with NHS Highland is £190,150. This fee includes £17,830 of pooled costs and a contribution of £7,840 to Audit Scotland costs.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of the NHS Highland Group for those charged with governance.

We are appointed by the Auditor General as the external auditors of the NHS Highland Group for the 6 year period (2016/17 until 2021/22)

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the NHS Highland Group are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

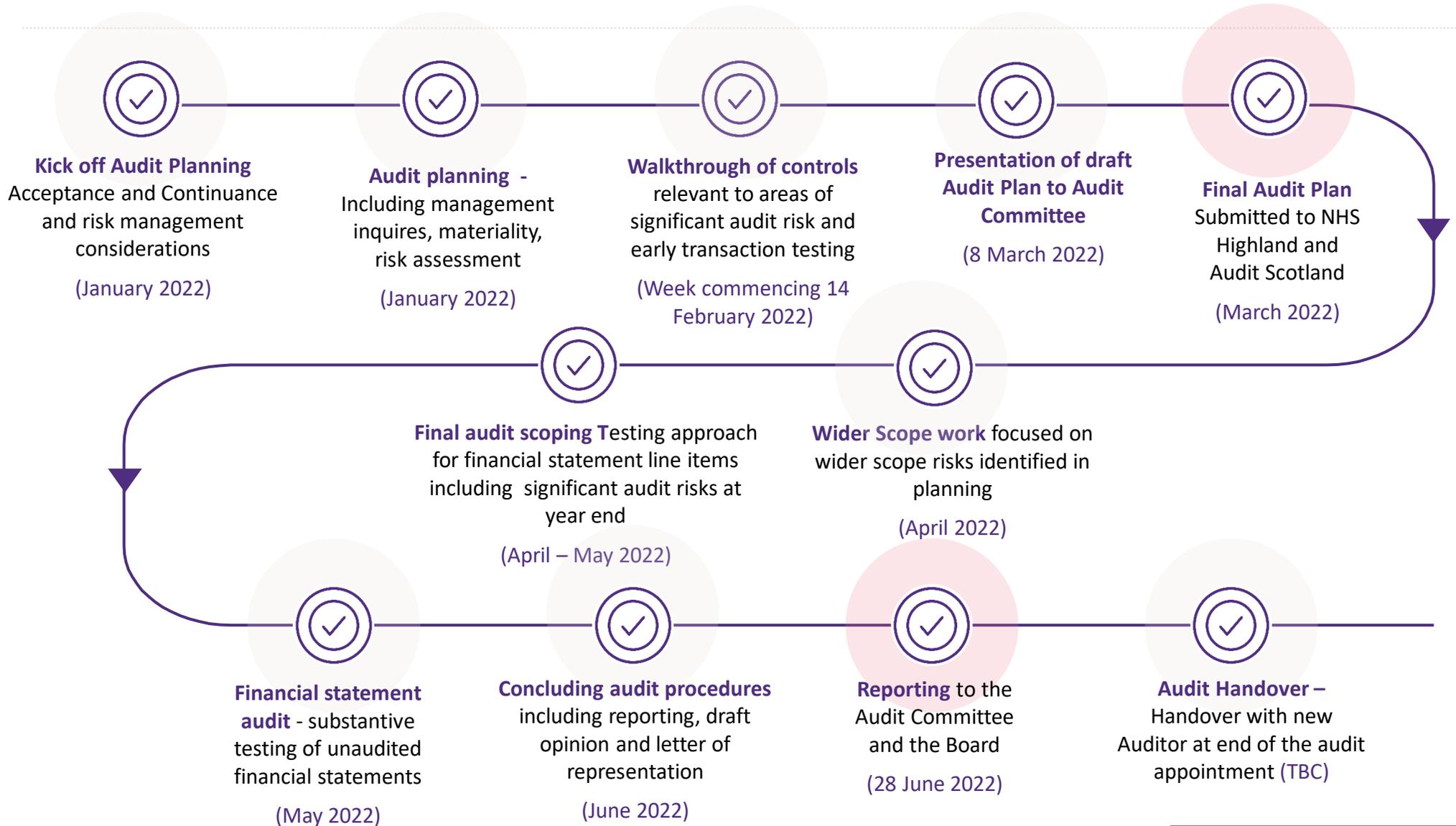
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the NHS Highland Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the NHS Highland Group to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the NHS Highland Group is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the NHS Highland Group and is risk based.



Audit approach



Group audit scope and risk assessment

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

The NHS Highland Group consists of the following bodies:

Subsidiary

- The Highland Health Board Endowment Funds (“the Endowment Fund”)

Associates

- Argyll and Bute Integration Joint Board (“the IJB”)

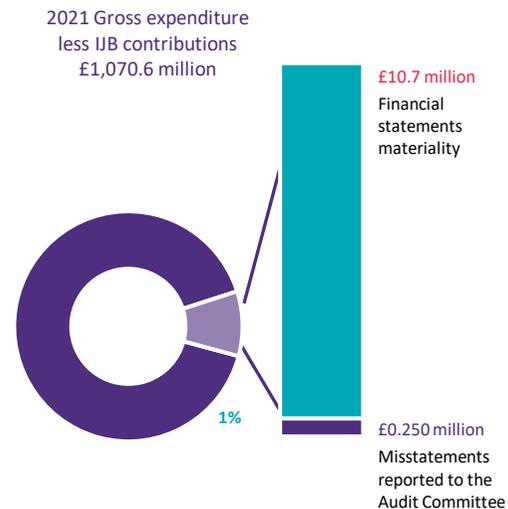
Through our audit planning procedures we consider NHS Highland as the only component to be “individually financially significant” to the NHS Highland Group, with the Endowment Fund considered to be “neither significant nor material”. We therefore plan a full scope audit of NHS Highland using NHS Highland only materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by the Endowment Fund. Analytical procedures will be performed using group materiality on all other consolidated balances, including those in relation to the IJB.

We are not the external auditor for the other components of the NHS Highland Group, however, as noted above, analytical procedures will be performed using group materiality on the consolidated balances of the Endowment Fund and the IJB where deemed to be material to the group accounts.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the Group audit scope.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure less Integration Joint Board (IJB) contributions. We have determined **planning materiality** to be £10.706 million for Group (and £10.699 million for NHS Highland only), which equates to approximately 1% of gross expenditure less IJB contributions as per 2020-21 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 70% of planning materiality (£7.494 million for Group, £7.489 million for NHS Highland only). This is based on our understanding of the NHS Highland Group and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

On this basis we apply a separate **lower materiality level** to the Remuneration and Staff Report. This is set at £25,000.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are '**clearly trivial**' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based on the unaudited 2021/22 financial statements when received in May 2022. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit 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.

Management Override of Controls (as required within Auditing Standards – ISA 240)

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override NHS Highland's internal controls, related to individual transactions. Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies.

We will:

- Evaluate the design effectiveness of management controls over journals;
- Analyse the journals listing and determine the criteria for selecting high risk unusual journals;
- Test unusual journals made during the year and at year end for appropriateness and corroboration;
- Gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness; and
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant audit risks (continued)

Risk of Fraud in Revenue (as required within Auditing Standards – ISA 240)

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

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

However, in 2021/22 Health Boards are not facing significant external pressure to restrain budget overspends as a result of COVID-19, with continued financial support being provided to Health Boards by Scottish Government as a result of the pandemic. NHS Highland recognised £129.2 million of “Other” income in 2021/22 which we deem to be material to the financial statements. We have therefore identified the risk of fraud in revenue in relation to the year end Other Income cut-off arrangements, where it may be advantageous for management to recognise less income in the current financial year and instead recognise this income in the next financial year when additional financial support may not be made available to NHS Highland.

In relation to Other Income we will:

- Evaluate your accounting policy for recognition of Other Income for appropriateness and compliance with the NHS Accounts Manual;
- Perform detail testing of Other Income transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct financial period;
- Review post year end receipts received by NHS Highland and verify the accounting period these transactions relate to and confirm income has been accounted for in the correct accounting period;
- Review the judgements and estimates made by management when recognising accrued and deferred income at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (continued)

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

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

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

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

In relation to non payroll/non finance expenditure we will:

- Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounts Manual and FReM;
- Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct financial period;
- Review the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (continued)

Valuation of land and buildings In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FRM), subsequent to initial recognition, NHS Highland is required to hold property, plant and equipment on a valuation basis. The exact valuation basis depends on the nature and use of the assets. Specialised NHS land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. As at 31 March 2021, NHS Highland held PPE of £396.8 million including land, buildings and dwellings of £311.3 million. Given the value of land, buildings and dwellings held by NHS Highland and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the year end valuation of these assets. The risk is less prevalent in non land, buildings and dwellings assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be misstated. NHS Highland appoint Gerald Eve and FG Burnett to undertake a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years. Based on our planning procedures to date and subject to the results of the final valuation we focus the risk on:

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

Our testing in relation to this identified risk will include:

- review of revaluations made during the year, confirming valuations have been input correctly into the asset register;
- understanding the basis on which valuations are carried out and challenge the information and assumptions used in the valuation process;
- engaging our own valuations expert to assess the instructions issued by NHS Highland to their valuers, the final valuers' report and the assumptions used that underpin the final valuations;
- performing focused testing in relation to management's impairment assessment, particularly in relation to assets which have not been subject to a formal valuation during the year, and consider the appropriateness of the assumptions used as part of this assessment.

Significant audit risks (continued)

Valuation of LG defined benefit pension scheme

As part of the terms and conditions of employment for staff transferred from Highland Council to NHS Highland, NHS Highland participates in the Local Government Pension Scheme administered by the Council. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. NHS Highland recognise the cost of these retirement benefits in the Statement of Comprehensive Net Expenditure (SoCNE) when they are earned by these employees, rather than when the benefits are paid as pensions. Highland Council recognise the liability as at 1 April 2012 attributable to these NHS Highland staff in the Highland Council's financial statements. Any gain or shortfall in the value of the fund attributable to NHS Highland staff in year is charged to the SoCNE. The pension liabilities are subject to an annual actuarial IAS 19 valuation to arrive at the value of scheme assets and liabilities. The arrangement is funded by Scottish Government and therefore both the impact of the IAS 19 valuation on service costs and actuarial remeasurements are funded through Annually Managed Expenditure funding in year.

We will review the basis used for estimating NHS Highland's share of the assets and liabilities of the LGPS as well as ensure that the disclosure in the financial statements is in line with the requirements of IAS 19. We will seek to rely on the work of PwC, as the auditor expert commissioned by Audit Scotland and the NAO.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Auditor General for Scotland in concluding our audit in June 2022.

Wider scope risks identified in planning

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas; Financial Sustainability, Financial Management, Governance and Transparency and Value for Money. We consider each of these areas through our audit planning process and have included where we have identified areas of significant wider scope risk.

Financial management

At October 2021 NHS Highland had overspent against their year to date budget by £11.8 million and was forecasting an overspend of £19.6 million at 31 March 2022. Correspondence received by NHS Highland from Scottish Government has indicated that support will be provided to NHS Boards to deliver breakeven financial position on a nonrepayable basis, providing there is appropriate review and control at Board level. On this basis a breakeven position is being forecast by NHS Highland at 31 March 2022. A funding value has not yet been confirmed.

Key areas of overspend include slippage of £11.9m forecast against the £32.9 million savings target set for 2021/22 and £7.4 million of overspend forecast for Acute Services, £5.3 million of which is in relation to Raigmore.

We will consider the overall financial position reached by NHS Highland during 2021/22 and we will seek to understand the future financial implications of this.

Financial sustainability

NHS Highland have continued to face significant challenges in 2021/22, from a financial perspective and as a result of the financial implications of the ongoing operational and service pressures they are facing due to Covid-19.

As identified above, a savings gap of £32.9 million was identified at the start of 2021/22 and slippage has been identified in relation to this savings gap however NHS Highland are not anticipating any brokerage requirement as Scottish Government has indicated that all health boards will receive funding to ensure financial balance in 2021/22. We will seek to understand the future financial plans for NHS Highland for 2022/23 and beyond including considering the extent to which savings delivered during 2021/22 represent sustainable recurring future savings.

Wider scope risks identified in planning

Governance and transparency

The **Healing Process** was an agreed action arising as a result of the Sturrock Report and was agreed by NHS Highland in March 2020. Registration opened in May 2020 and closed in March 2021. We reviewed the Healing Process as part of our prior year Wider Scope work and we will once again consider the progress made by NHS Highland during 2021/22 in relation to this area.

NHS Highland are currently developing their **Culture plan** and priorities for 2022 and beyond. Going forward the expectation is that progress against this plan will be monitored and reported and it will receive oversight from appropriate groups and committees within NHS Highland, as well as input from colleagues and leaders across the organisation. We will consider the progress made by NHS Highland during 2021/22 in relation to this area.

Value for Money

Remobilisation Plans have been agreed between NHS Highland and Scottish Government, outlining agreed levels of monthly activity to support recovery from the Covid-19 pandemic. The core indicators reported against the Remobilisation Plan are set by Scottish Government and primarily reflect immediate challenges to bring services back online. We will review the progress made by NHS Highland in relation to the latest agreed Remobilisation Plan.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in FReM (opinion).
- We issue a separate "consistency with" opinion on your summarisation schedules which confirm whether the schedules are consistent with the audited financial statements. This is submitted to Scottish Government Health and Social Care Directorate.
- We consider our other duties under the Code and planning guidance (2021/22), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting.
 - Informing the Shared Intelligence Group via a data return, presented and facilitated by Audit Scotland.
 - Participating in the Audit Scotland NHS Sector group.
 - Completing a data set provided by Audit Scotland to support NHS Overview reporting.
 - Review of NHS Technical guidance prior to issue by Audit Scotland.

We will also report on the risk of fraud and corruption in the procurement function in our 2021/22 ISA 260 report.

Internal control environment

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

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls identified in relation to the following areas: Scottish Government income, other operating income, payroll expenditure, expenditure, valuation of land and buildings, valuation of Local Government Pension Scheme, journal entries and material areas of management estimate and judgement.
- Our focus is on design and implementation of controls only. We do not place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Other matters (continued)

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on NHS Highland's arrangements to ensure financial sustainability.

Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit. Based on our knowledge of NHS Highland we have identified some material accounting estimates for which this is likely to apply: Valuation of property, plant and equipment, Depreciation of property, plant and equipment, LGPS, Provisions – clinical and medical negligence, Participation in CNORIS, Provisions – pensions and injury benefits, accrued income and FHS practitioners accruals. [Further detail is set out in our Appendix on page 30.](#)

Other matters (continued)

Financial accounting updates — International Financial Reporting Standard 16 Leases implementation

Following the previous deferrals of IFRS 16 Leases in the NHS, this accounting standard will now be implemented from 1 April 2022. Scottish Government is working with NHS bodies in implementation of the new standard.

The new standard brings significant changes for lessee accounting. Key points that NHS Highland will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated at 31 March 2023).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends on or before 31 March 2023.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16. (HM Treasury is expected to provide further guidance regarding the implementation of changes to accounting for PFI arrangements).
- The 2021/22 financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April 2022.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after 1 April 2022.

NHS Highland will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made within the Group's financial statements are complete and accurate.

We anticipate for the 2021/22 financial year that we will review the disclosures and the arrangements NHS Highland have established to ensure completeness of the disclosures.

Other matters (continued)

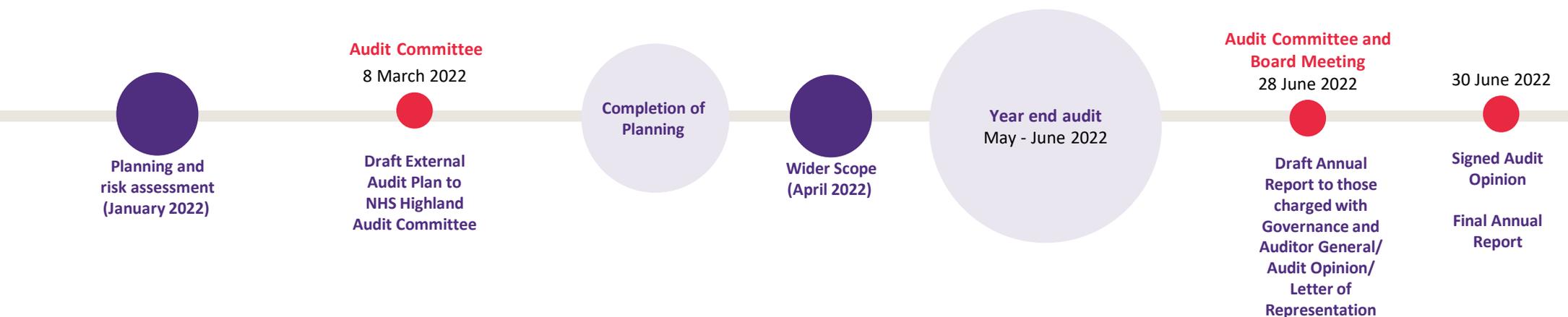
Other financial reporting developments - Changes in the FReM for 2021/22

One of the main changes to the FReM 2021/22 is the expanded requirements for Fair Pay Disclosures within the remuneration and staff report. The main changes are:

- A new requirement to disclose the percentage year on year changes in salary and allowances, and performance pay and bonuses, for the highest paid director and for the employees of the entity taken as a whole;
- total pay and benefits, and the salary component separately, for the 25th, 50th and 75th percentiles (previously just the median remuneration). This should be based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at 31 March 2022. For the purpose of this disclosure, pay and benefits excludes the value of pension benefits and severance payments.
- a summary for 2021/22 explaining:
 - whether movement in the ratios is attributable to a change in the highest paid director's remuneration or the employees, or a change in the body's employment models;
 - trends in the median pay ratio; and,
 - whether the body believes that the median pay ratio reflects the pay, rewards and progression policy for employees as a whole.

We will review the NHS Highland Group's Remuneration and Staff report disclosures in the draft financial statements to evaluate whether the disclosures are complete, clear, concise, and free from material misstatement.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.co.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.granthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

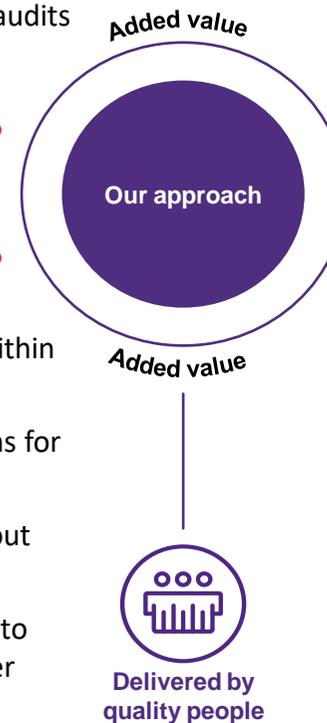
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit Committees to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

Audit fees were shared by Audit Scotland with NHS Highland in December 2021. Following conclusion of our planning procedures we have agreed our final audit fee with the Director of Finance and communicate this on page 23. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

The baseline fee of £158,980 has been amended for the following reasons and amounts, as set out below:

- Valuations: Land and buildings valuations are complex and are highly material. To meet this risk we use an auditors expert (valuation).
- IFRS 16 leases. Additional work is required by auditors at planning and year end in relation to the required disclosures in the current year in relation to IFRS 16.

Audit Fees (continued)

Audit fees for 2021-22

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

Additional Fees (Non-Audit Services)

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

Fee assumptions

In setting the fee for 2021-22 we have assumed that NHS Highland will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard (Revised 2019) 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 confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as confirming when completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.

We confirm we are independent of the NHS Highland Group.



Appendices

Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

NHS Highland

Responsibilities include:

- Preparing financial statements that give a true and fair view
- Maintaining accounting records
- Establishing and maintaining systems of internal control
- Effective internal controls including controls to achieve objectives and secure value for money
- Establish arrangements for proper conduct of affairs including legality of transactions
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues
- Notify Audit Scotland of any known or suspected frauds greater than £5,000
- Contribute to relevant performance studies (as set out in the planning guidance for the year)



Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit Committee on behalf of the Board). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit Committee.

Our communication plan	Audit Plan	Annual Report (considered our ISA 260 Report)
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 the NHS Highland Group'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		•

Fraud responsibilities

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

As part of our audit work we are responsible for:

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

As auditors we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

Fraud responsibilities (continued)

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

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

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

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

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Highland's arrangements in response to the National Fraud Initiative.

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

Anti-Money Laundering Arrangements

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. The first year this impacted on NHS Highland was the 2020/21 financial year.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do **Audit Committee** members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting again this year further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of NHS Highland, in particular from the prior year audit, we have identified the following material accounting estimates: Valuation of property, plant and equipment, Depreciation of property, plant and equipment, LGPS, Provisions – clinical and medical negligence, Participation in CNORIS, Provisions – pensions and injury benefits, accrued income and FHS practitioners accruals.

NHS Highland's Information Systems

In respect of NHS Highland's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change.

Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Future Auditing developments (2022/23)

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2022.
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	<ul style="list-style-type: none"> • The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assessed and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	<ul style="list-style-type: none"> • The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible

Area of change	Impact of changes
Definition of engagement team	<ul style="list-style-type: none"> • The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<ul style="list-style-type: none"> • The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	<ul style="list-style-type: none"> • The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

