

Annual Audit Report for NHS Grampian

Financial year ended 31 March
2023

**Prepared for those Charged
with Governance and the
Auditor General for Scotland**

7 July 2023 – Final report



Contents



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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 NHS Grampian 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 2021). 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 (1)

This table summarises the key findings and other matters arising from the external audit of NHS Grampian and its Group and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

Financial Statements

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 NHS Grampian and its group at 31 March 2023, and of the net expenditure of Board for the year then ended;
- the Group and Board's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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; and
- the Governance Statement is prepared in accordance with the FRoM and NHS Scotland Manual for Accounts.

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

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. We have completed our audit of your financial statements and issued an unmodified opinion following the Audit and Risk Committee on 27 June 2023 and then subsequent Board on 6 July 2023. We have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of NHS Grampian.

The Remuneration Report and Staff Report has been prepared in accordance with requirements. We have concluded the work on the Governance Statement has been prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Annual Report and Accounts were presented for audit on 16 May. Officers kept us informed about the draft financial statements progress, appreciating there were late government template changes to factor into the process.

We have been supported by NHS Grampian's officers during the audit progress with effective working relationships and commitment to the audit process. The draft Annual Report and Accounts submitted for audit did not have the Joint Integrated Board consolidation, as NHS Grampian can only include this when received from partner organisations on 26 May. In addition, an impairment to the asset under construction for the Baird and Anchor capital project was based upon an estimate in the draft financial statements. During the audit, we experienced challenges to gain assurance over the beacon approach applied NHS Grampian's valuer (the DV/VOA), in relation to the source data for build costs. We performed additional procedures and sufficient evidence has been obtained, with a non-material unadjusted misstatement identified (see Appendix 1) with further detail provided on pages 33-34 and a recommendation raised (see Appendix 2).

Executive Summary (2)

Financial Statements

The target submission dates have moved back to pre-Covid timetables, with 30 June 2023 as the target date set by Audit Scotland. NHS Grampian convened a meeting to authorise a final version of the financial statements on 6 July 2023, with submission planned for 7 July 2023, therefore the target deadline will not be met. This was a managed process agreed with Scottish Government and communicated to all relevant stakeholders in February 2023.

From the first draft version of the financial statements there are six adjustments to the primary financial statements of NHS Grampian and the Group. We highlight five that are significant below.

The net expenditure increased in the draft statements for the group by £1.364 million, and the statement of financial position net assets and reserves increased by £57.375 million. Any material and significant adjustments and are set out below. They have been adjusted by management in the final set of financial statements:

- The draft financial statements did not include the consolidation of the partner bodies for the Integrated Joint Board transactions. When these were received, NHS Grampian officers identified that £34.359 million was added to expenditure, and £24.380 million to assets and reserves.
- Impairments of buildings within the financial statements was £41.308 million of which £37million in relation to the Baird and ANCHOR centre, which was based upon an initial estimate from the Valuer. When the final valuation was received, this reduced to £8.332 million of which £4.024 million related to the Baird and ANCHOR centre. Therefore, NHS Grampian identified that a £32.976 million increase in buildings and reserves was required, with a corresponding decrease to other operating expenditure.
- NHS Grampian identified an adjustment to provisions within the balance sheet due to the incorrect classification of a provision that needed to be classified within risk category 1. This resulted in £19.975 million added into the long-term provisions balance and debtors.
- The draft cashflow statement did not include 'capital elements in respect of lease payments' of £0.469 million in respect of the Board. This has been added to the cashflow statement, resulting in a decrease to the 'cash and cash equivalent reported at the end of the period from £10.881 million to £10.412 million.
- £5.935 million of Income from other NHS Scotland bodies was misclassified within other operating expenditure. NHS Grampian have adjusted for £4.957 million – an increase of £4.957 million to Note 4 – Income from other NHS Scotland bodies and a corresponding increase to Note 3 Other operating expenditure. £0.987 million has not been corrected and is reported within appendix 1 as an unadjusted misstatement. We have raised an associated recommendation in Appendix 2.

In addition to the amendments identified in primary statements and their associated disclosure notes, other amendments were identified within other disclosure notes, but none are material. Further detail is set out in Appendix 1 at page 66 on all adjusted misstatements.

We also identified potential misstatements during the audit from our testing. Management have decided not to adjust the financial statements for these misstatements as they are estimated and have no material impact on the financial statements.

Further detail is set out in Appendix 1 at page 68 and will also be included in the Letter of Representation.

Executive Summary (3)

Financial Statements

Included within the unadjusted misstatements is the national pay negotiations with Scottish Government regarding Junior Doctors' Pay. The latest position for 2022/23 at the date of this report, is that an additional 3% offered on top of the 4.5% already paid was rejected. As there is no settlement, there is currently no provision within the 2022/23 financial statements for the settlement. The estimated impact is in the region of £0.915 million, therefore not material to the financial statements, and the Board have included this as a non-adjusted misstatement.

We have raised 13 recommendations for management as a result of our audit work on the financial statements. These are set out in Appendix 2. We have received comprehensive management responses to our action plan. Our follow up of the recommendations made by the predecessor auditor last year are detailed in Appendix 4.

Our approach included a technical review of the financial statements, therefore the number of disclosure issues reported to you is increased. It is anticipated that issues noted will be incorporated into future financial statements.

We have completed our audit of your financial statements and issued an unmodified opinion following the Audit and Risk Committee on 27 June 2023 and then subsequent Board on 6 July 2023.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff including the external valuers. The amount of work by both NHS Grampian and the audit team has been significant, particularly in the first year of our audit, combined with the shorter target timelines. Co-operation and support of the finance team has been good, working through some delays in receiving responses to audit queries and evidence.

Executive Summary (4)

Wider scope

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 requires auditors to consider NHS Grampian's arrangements in respect of financial management, financial sustainability, vision leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2023 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we identified one risks in respect of financial sustainability.

We outline our work undertaken in response to the arrangements in place and the risks identified and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Further details of the work undertaken are outlined on pages 47 to 64.

We have raised 10 recommendations for management as a result of our audit work on wider scope. These are set out in Appendix 3.

There remains a significant risk in respect of financial sustainability given the significant financial challenges NHS Grampian faces over the longer term.

Financial management

NHS Grampian operated within its financial resource targets for 2022/23. The Financial Plan for 2022/23 forecast an unfunded gap of £19.9 million at the start of the financial year with a 1% savings target of £7.983 million.

NHS Grampian delivered a breakeven position during 2022/23, achieving a small surplus against its Revenue Resource Limit. A breakeven position was also achieved against its Capital Resource Plan.

The surplus position was achieved largely due to additional non-recurring funding (£18.243 million) received from Scottish Government in March 2023, and £10.184 million of savings. NHS Grampian exceeded its savings target, 24% of which were recurring savings.

NHS Grampian has financial monitoring arrangements. We have identified three recommendations to strengthen financial management arrangements. Through our audit procedures performed we have not identified any significant risks in relation to NHS Grampian's financial management arrangements.

Vision, leadership and governance

The Board approved its "Plan for the future" in June 2022, which sets out NHS Grampian's strategic direction and vision over the next six years across three themes – people, places and pathways – developed through stakeholder engagement and co-production, including NHS Grampian's key partners.

This strategy provides clear vision and direction, with a defined set of priorities. The strategy recognises the need to address the long-term sustainability of healthcare.

Executive Summary (5)

Wider scope

NHS Grampian has expected governance arrangements in place, including key policies and procedures and internal audit service, which complies with relevant legislative and other regulatory requirements. Internal audit identified recommendations to improve NHS Grampian's whistleblowing arrangements during 2022/23. We have identified three recommendations to strengthen arrangements in this wider scope area. Through our audit procedures performed we have not identified any significant risks in relation to NHS Grampian's vision, leadership and governance arrangements.

Financial sustainability

The Financial Plan submitted to the Scottish Government budgets a deficit position of £60.6 million for 2023/24 (after delivery of savings of £16.5 million) reducing to £59.4 million in 2024/25 and £52.9 million in 2025/26. The Medium-Term Financial Framework (MTFF) highlights a forecast deficit position for the next five financial years. The increase in the overspend position in 2023/24 is significant, if additional funding is not provided, or without transformation. The 2023/24 financial plan outlines a requirement to deliver £16.557 million of savings and efficiencies in order to achieve the planned deficit position. The savings plan shows that £13.226 million is estimated to be recurrent and £3.331 million non-recurrent savings. Within the Finance Plan, £8.5 million of the recurrent savings is estimated to be of high risk of delivery. The slippage and/or non-delivery of these planned savings/efficiencies could result in significant challenges for the Board in its ability to deliver its planned financial position. The MTFF has a number of risks attached within the forecast such as pay awards which are still being negotiated at a national level, impact of winter pressures and rising inflation levels, which if crystallised, could increase the planned financial deficit outturn.

NHS Grampian is currently building two new significant facilities the Baird Family Hospital and ANCHOR Centre. During 2022/23 the project has seen costs increase. This is due to challenges encountered in progressing the final stages of the design of the facilities, which has led to further delays to the estimated opening of both facilities. The ANCHOR centre is expected to open in October 2023, and the Baird Family Hospital in September 2024. Any delay to resolving these issues will have a further adverse impact on the programme timeline. Regular reporting of the project to committee and Board will be important during the remainder of the project to ensure scrutiny. There remains a significant risk in respect of financial sustainability given the significant financial challenges NHS Grampian faces over the longer term. We have identified four recommendations in relation to financial sustainability.

Use of resources to improve outcomes

The Covid-19 pandemic continues to have a lasting impact on NHS Grampian and performance delivery. NHS Grampian, like other health boards across Scotland, is facing significant system pressures, including capacity, workforce and waiting list backlogs. These operational pressures correspond to the some of the key financial pressures facing NHS Grampian. NHS Grampian plans reform pathways across the healthcare system, to address these challenges over the next five years to ensure the sustainability of healthcare, enabling wellness and wellbeing in collaboration with partners. Through our audit procedures performed we have not identified any significant risks in relation to NHS Grampian's use of resources.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at NHS Grampian. The scope of our audit was set out in our External Audit Plan that we presented to the Audit and Scrutiny Committee on 14 March 2023.

The core elements of our audit work in 2022/23 have been:

- An audit of NHS Grampian and Group's annual report and accounts for the financial year ended 31 March 2023 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- Monitoring NHS Grampian'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 NHS Grampian and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

NHS Grampian has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. NHS Grampian is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

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 officers from their 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 NHS Grampian 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 financial sustainability, risk management and performance monitoring. In so doing, we aim to help NHS Grampian promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit of the annual report and accounts

Our approach to the audit of the financial statements



Overall materiality

Group: £22.54 million, which represents 1.3% of the group's gross expenditure less IJB contributions;

Board: £22.48 million, which represents 1.3% of NHS Grampian's gross expenditure less IJB contributions.

There is a change in materiality values since our Audit Plan of 12 March 2023, as the final expenditure for 2022/23 was used as the basis of the calculation. The percentage chosen remains unchanged.

Key audit matters

A key audit matters was identified as:

- Valuation of land and buildings;

Significant risks were identified as:

- Management override of controls;
- Risk of fraud in expenditure
- Risk of fraud in income

Other risks were identified as:

- Implementation of International Financial Reporting Standard (IFRS) 16.

Internal control environment

In accordance with ISA requirements, we have developed an understanding of NHS Grampian'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. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. 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.

Recap of our audit approach and key changes in our audit strategy

We have not identified any changes in our approach since our Audit Plan presented to you on 12 March 2023. The risks identified remain the same.

The group scoping is as reported, with specific audit procedures performed over material balances for the Endowment Fund and analytical procedures in relation to the consolidation of the three Integrated Joint Boards.

Note as part of our approach we use auditor's experts for the work on the valuation of land and buildings.

Our audit opinion

Auditor's report on the financial statements

We have completed our audit of your financial statements and issued an unmodified opinion following the Audit and Risk Committee on 27 June 2023 and then subsequent Board on 6 July 2023.

We draw your attention to adjusted misstatements to primary statements, with 3 of these identified by management due to the information being updated since the draft financial statements were received. The impact upon the financial statements is to increase net expenditure for the year reported in the Comprehensive Statement of Net Expenditure by £1.364 million and the adjustments are noted at Appendix A.

There are 10 unadjusted misstatements at Appendix A. There is no impact upon the proposed opinion for the unadjusted misstatements identified. These are set out at Appendix A.

As reported in the independent auditor's report, our opinion will cover:

- The Group and Board's financial statements give a true and fair view of the financial position of NHS Grampian and its group at 31 March 2023, and of the net expenditure of NHS Grampian for the year then ended;
- the Group and Board's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (FRoM);
- expenditure and income were in accordance with applicable enactments and guidance (regularity);
- the Group and Board's financial statements and the audited parts of the Remuneration 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; and
- the Governance Statement is prepared in accordance with the FRoM and NHS Scotland Manual for Accounts.

Our work relating to the review of the Annual Report and Annual Governance Statement is complete and we have no significant or material matters to report to you.

We have completed our audit of your financial statements and issued an unmodified opinion following the Audit and Risk Committee on 27 June 2023 and then subsequent Board on 6 July 2023.

Receipt of the draft financial statements

The Annual Report and Accounts were presented for audit were presented on 16 May. Officers kept us informed about the draft financial statements progress, appreciating there were late government template changes to factor into the process. We have been supported with NHS Grampian's officers during the audit progress with effective working relationships and commitment to the audit process.

The draft Annual Report and Accounts did not have the Joint Integrated Board consolidation, as NHS Grampian can only include this when received from partner organisations on 29 May. In addition, an impairment to the asset under construction for the Baird and Anchor capital project was based upon an estimate in the draft financial statements. The final figures were received by NHS Grampian from the valuer on 11 June, and our audit work on this area is ongoing. The impact of any changes are noted in Appendix A and management has corrected these items.

Target audit deadlines

The target submission dates have moved back to pre-Covid timetables, with 30 June 2023 as the target date. NHS Grampian convened a meeting to authorise a final version of the financial statements on 6 July 2023, therefore the target deadline will not be met.

Financial performance during 2022/23

The Scottish Government requires NHS Board to meet three key financial targets:

- a Revenue resource limit;
- a Capital resource limit; and
- a Cash limit.

NHS Grampian delivered a break-even position in 2022/23, achieving a small surplus of £0.612 million against its Revenue Resource Limit. A breakeven position was also achieved against the Capital Resource Limit.

During the Covid-19 pandemic the three-year annual operating and financial process was amended. For the first time, in March 2023, NHS Grampian submitted a one-year financial plan with a budgeted deficit £19.9 million to Scottish Government for 2022/23 financial year. The Financial Plan for 2022/23 required savings of £7.983 million to be delivered. The breakeven position was delivered through savings of £10.184 million of which 76% were non-recurring and additional non-recurring income of £18.243 million was received in March 2023.

The impact of pandemic continued to have an impact on services and finances during 2022/23 although it was less significant in 2022/23 than in the prior year. Covid-19 expenditure totalled £41 million in 2022/23 and the split of this expenditure is shown in the list below:

- £14.75 million (36%) social care and community capacity;
- £9.96 million (24%) vaccinations;
- £6.26million (15%) personal protective equipment and infection prevention;
- £5.15 million 13% workforce capacity;
- £3.97 million (10%) test and protect; and
- £0.95 (2%) primary care and public health capacity and other.

The total Capital Funding for NHS Grampian for 2022/23 was £104.268 million including £85.1 million in relation to the Baird Family Hospital and ANCHOR Centre.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over / under) £'000
Core Revenue Resource Limit	1,292,491	1,291,879	612
Non-core Revenue Resource Limit	46,200	46,200	-
Total	1,338,691	1,338,079	612
Core Capital Resource Limit	104,268	104,268	-
Non-core Capital Resource Limit	1,068	1,068	-
Total	105,336	105,336	-
Cash requirement	1,546,903	1,546,903	-

Our application of materiality (1)

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. 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.

Basis for our determination of materiality

- **Materiality for financial statements as a whole** - We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
- **Performance materiality used to drive the extent of our testing** - We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- We have determined planning materiality in the context of our knowledge of the business, including consideration of factors such as key stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.
- We have used gross expenditure as the basis for determining materiality. Our materiality set for the group was £22.54 million representing 1.3% of gross expenditure less IJB contributions. For NHS Grampian, materiality was £22.48 million and 1.3% of gross expenditure less IJB contributions.

Specific materiality

- We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- A lower level of materiality of £25,000 is set for the senior officers' disclosures within the Remuneration and Staff Report.

Reporting threshold

- We determine a threshold for reporting unadjusted differences to the Audit and Risk Committee.
- We will report to you all misstatements identified in excess of £0.25 million, in addition to any matters considered to be qualitatively material.

Our application of materiality (2)

As communicated in our Audit Plan dated 12 March 2023, we determined over materiality at the planning stage as £20.77 million for the group based on 1.3% of gross expenditure less IJB contributions and £20.765 million for NHS Grampian. At year-end, we have reconsidered planning materiality based on the final group financial statements.

Materiality was determined as follows:

Materiality for financial statements as a whole

	Group	Board
Materiality threshold	Overall materiality has been set at £22.54 million which represents 1.3% of the group's gross expenditure less IJB contributions. Overall materiality is £0.54 million higher than the materiality level set by the predecessor auditor last year.	Overall materiality has been set at £22.48 million which represents 1.3% of NHS Grampian's gross expenditure less IJB contributions. Overall materiality is £0.48 million higher than the materiality level set by the predecessor auditor last year.
Significant judgements made by auditor in determining the materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual expenditure for the year ended 31 March 2023 less IJB contributions and adjusted our audit procedures accordingly.	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual expenditure for the year ended 31 March 2023 less IJB contributions and adjusted our audit procedures accordingly.

Our application of materiality (3)

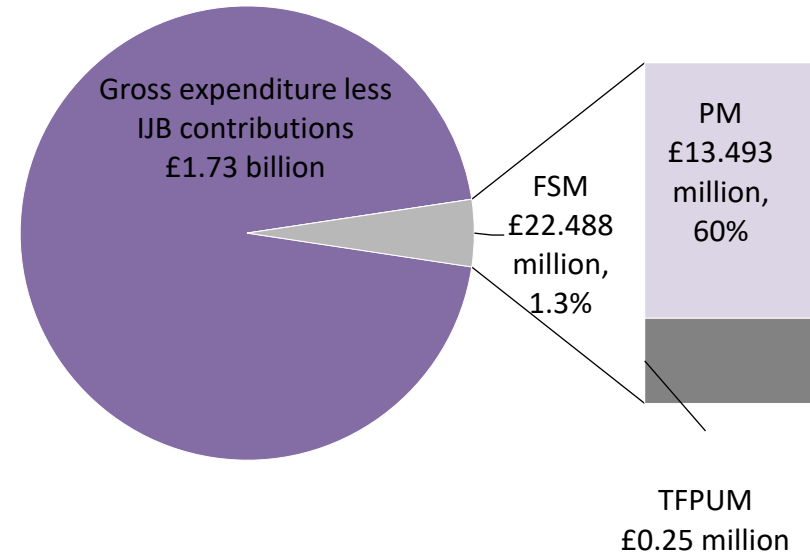
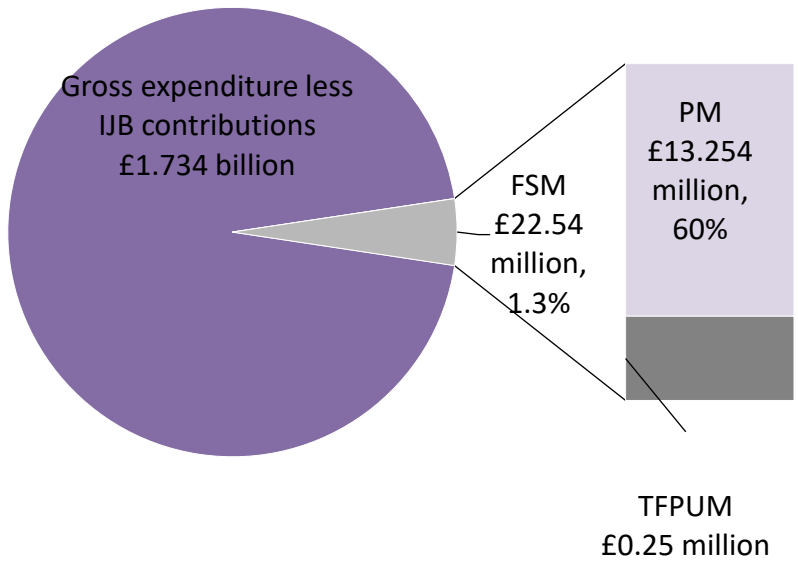
Performance materiality used to drive the extent of our testing

	Group	Board
Materiality threshold	Performance materiality for the year has been set at £13.524 million which is 60% of financial statement materiality. Performance materiality is £0.524 million higher than the materiality level set by the predecessor auditor last year.	Performance materiality for the year has been set at £13.493 million which represents 60% of financial statement materiality. Performance materiality is £0.493 million higher than the materiality level set by the predecessor auditor last year.
Significant judgements made by auditor in determining the performance materiality	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the significant judgement in selecting a lower level of performance materiality as first year auditors.	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the significant judgement in selecting a lower level of performance materiality as first year auditors.
Significant revision(s) of performance materiality threshold that was made as the audit progressed	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial performance materiality based on actual expenditure for the year ended 31 March 2023 less IJB contributions and adjusted our audit procedures accordingly.	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial performance materiality based on actual expenditure for the year ended 31 March 2023 less IJB contributions and adjusted our audit procedures accordingly.

Our application of materiality (4)

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality - Group | **Overall materiality - Board**



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and NHS Grampian's business and in particular matters related to:

Understanding the group, NHS Grampian, and its components, and their environments, including group-wide controls

- The engagement team obtained an understanding of NHS Grampian, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Board only level;

Identifying significant components

- We evaluated the significance of each component of the group and determined the planned audit response based on a measure of materiality.

Work to be performed on financial information of Board and other components (including how it addressed the key audit matters)

- A full scope audit was performed on NHS Grampian. Specified procedures were performed over material balances for the Endowment Funds. An analytical approach of the joint venture transactions and accounting for the IJBs was undertaken. No additional key audit matters were identified in group transactions.
- To date there are no matters arising in relation to the group transactions other than the impact of any transactions noted as part of the Board audit, as that impact is also reflected in the group transactions. Our work is ongoing in this area.

Performance of our audit

- The full scope audit was conducted on NHS Grampian. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes.
- The specific procedures for the Endowment Funds included £49.207 million of cash/investments agreed to third party confirmations.
- The analytical procedures for the consolidation of the joint ventures and associated accounting entries and reserves agreed the basis of the consolidation.

Changes in approach from previous period

- There are no additional components in the group compared to 2021/22. This is our first year of audit, and there are no changes from our approach noted in our Audit Plan from 12 March 2023.

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 NHS Grampian and its Group 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 2022/23 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Audit and Risk Committee, concerning NHS Grampian's 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 Senior Officers and the Chair of the Audit and Risk 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 NHS Grampian and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers' 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 to journal entries that altered NHS Grampian's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the risk of fraud in income and expenditure recognition. Our audit procedures were in relation are documented within our response to the significant risk of management override of controls below.
- 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 in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - NHS Grampian and its group 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.
 - NHS Grampian's control environment, including the policies and procedures implemented by NHS Grampian to ensure compliance with the requirements of the financial reporting framework.

Group audit approach

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 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 table below summarises our final group scoping, as well as the status of work on each component.




Component	Significant	Scope – planning	Scope – final	Auditor	Status	Comments
NHS Grampian	Yes			Grant Thornton UK	● Green	Our findings are summarised on pages 9-46.
Endowment Funds	No			Grant Thornton UK	● Green	The audit team has performed a review of the Endowment Funds for the material cash and investment balances to third party confirmation. Note that the Endowment Funds are audited by another audit firm, and it is expected that their work will be completed after the date of our audit.
IJB Joint Ventures	No			Grant Thornton UK	● Green	Our work is now complete and has not raised any issues.




NHS Grampian	Full scope audit procedures will be performed to component materiality by the group audit.
Endowment Funds	Audit of specified financial statement line items to component materiality by the group audit team.
IJB Joint Ventures	Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.
Green	<ul style="list-style-type: none"> planned procedures are substantially complete with no significant issues outstanding.
Amber	<ul style="list-style-type: none"> planned procedures are ongoing/subject to review with no known significant issues.
Red	<ul style="list-style-type: none"> planned procedures are incomplete and/or significant issues have been identified that require resolution.

Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work to date
Valuation of land and buildings	Significant	↔	✘	✓	High	Substantive	● Green
Management override of controls	Significant	↔	✓	✘	Low	Substantive	● Green
Risk of fraud in expenditure	Significant	↔	✓	✘	Medium	Substantive	● Green
Risk of fraud in revenue	Significant	↔	✓	✘	Medium	Substantive	● Green
Implementation of IFRS16	Other	↔	✘	✘	Low	Substantive	● Green

 Assessed risk increase since Audit Plan
 Assessed risk consistent with Audit Plan
 Assessed risk decrease since Audit Plan

 Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements
 Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements
 Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks and Key Audit Matters (1)

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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Board's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

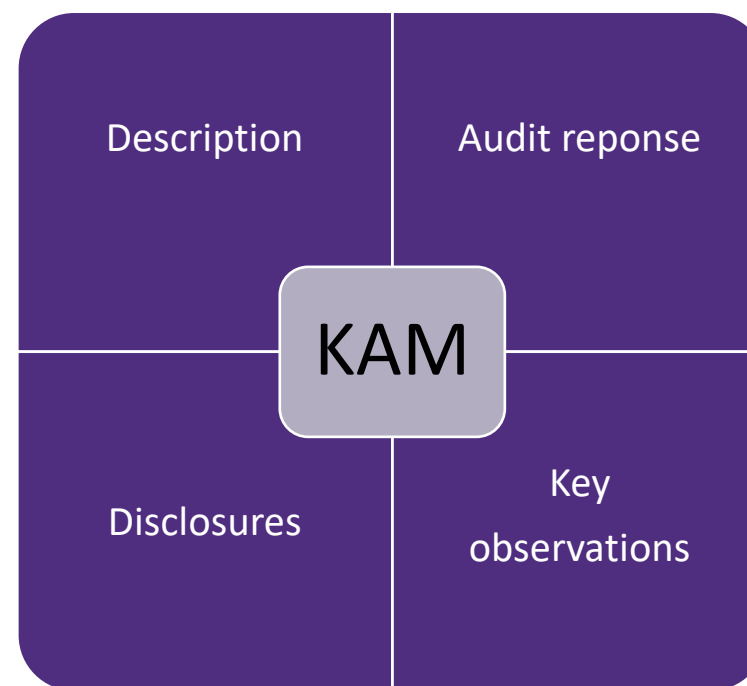
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.



Significant risks and Key Audit Matters (2)

Key Audit Matter identified in our Audit Plan – Board

Risk 1: Valuation of land and buildings

In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, NHS Grampian is required to hold property, plant and equipment (PPE) on a valuation basis. The valuation basis used depends on the nature and use of the assets. Specialised 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.

NHS Grampian appointed the Valuation Office Agency revalue their land and buildings every year. The Foresterhill site which is in Aberdeen is physically inspected each year as this is the main hospital site and makes up over 50% of NHS Grampian's land and buildings value. The remainder asset base is valued on a rolling basis over five years – 80% desktop valuation and 20% physical inspection each year. As at 31 March 2023, NHS Grampian held PPE of £730.814 million including land, buildings of £503.985 million and Board dwellings of £1.414 million. NHS Grampian revalued 100% of land and building assets in 2022/23.

Given the significant value of the land, and non specialised buildings held by NHS Grampian, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of *current value*. We therefore focussed our audit attention on assets that had large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration and one of the most significant assessed risks of material misstatement due to error.

At NHS Grampian this included the Aberdeen Royal Infirmary (£242.413 million), Summerfield House (£2.100 million) and Kincardine Community Hospital (£2.921 million).

How our scope addressed the matter – Board

In responding to the key audit matter, we performed the following audit procedures:

- Evaluated management's processes and controls for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation expert;
- Written to the valuer to confirm the basis on which the valuations have been carried out;
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluated the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Tested, a sample of other asset revaluations made during the year to ensure they have been input accurately into the Board's asset register and associated entries in the financial statements;
- Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;

Significant risks and Key Audit Matters (3)

Key Audit Matter identified in our Audit Plan – Board

Risk 1: Valuation of land and buildings (continued)

The Aberdeen Royal Infirmary accounts for more than 50% of NHS Grampian's value of buildings, meaning a small error in one assumption or the source data of the valuation of these assets could lead to a material error. We also selected a further twelve buildings and four land assets for detailed testing.

As at 31 March 2023, NHS Grampian held £156.051 million of assets under construction (AUC), of which £150.8 million relates to the on-going construction of the Baird Family Hospital and ANCHOR Centre.

AUC is held at cost less impairment until become operational and are transferred into use. There is a risk particularly in relation to long running construction projects that the assets could be impaired.

Management should undertake an impairment review of AUC, at the end of each financial year, to assess whether there are any indicators of impairment and the resultant impact on their carrying value.

How our scope addressed the matter – Board

- Engaged our own valuations expert to assess the instructions issued by NHS Grampian to their valuers, the final valuers' report and the assumptions used that underpin the final valuations;
- For any assets not formally revalued, evaluated the judgement made by management or others in the determination of the current value of these assets;
- Reviewed your impairment assessment as to whether there are indicators of impairment for key components of AUC; and if there are indicators of impairment for AUC, we will review your calculation of the potential impact on the carrying value, including any work undertaken by your expert, in line with the requirements of the Accounts Manual and International Accounting Standard 36.

Significant risks and Key Audit Matters (4)

Risk 1: Valuation of land and buildings (continued)

Commentary

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023

- **Accounting Policies:**
 - Note 1.7 Property, plant and equipment
 - Note 1.28 Key sources of judgement, estimation and uncertainty - Fair Value of Land & Buildings
- **Financial statements:**
 - Note 7a Property, plant and equipment
- **Performance Report:**
 - Note 3.2.7 Infrastructure and Non-current assets

Key results

Montagu Evans were engaged by the National Audit Office (NAO), on behalf of all audit suppliers, as an auditor's expert to perform a review of the valuation assumptions used by the VOA in their annual revaluations of land and buildings for NHS bodies. The 2022/23 report by Montagu Evans was provided to us by the NAO on 14 June 2023.

This report highlights the VOA applies two data sources to their build costs, used in the valuation of specialised assets. One of the two approaches is the 'beacon' approach, which is used for the valuation of NHS Grampian's specialised assets. This is an in-house built cost data set. Montagu Evans were unable to undertake a detailed review of this approach and outlined additional procedures for auditors to undertake.

We have undertaken a detailed review of floor areas used within the valuation calculations to floor plans held by NHS Grampian. Our work has identified differences. The projected impact of this error is the understatement of property, plant and equipment for buildings of £2.849 million and corresponding understatement of the revaluation reserve. This has been included as an unadjusted misstatement in Appendix 1. We have also raised an associated improvement recommendation in Appendix 2. We have also performed testing and challenged the valuer over the build costs used within valuation calculations for assets valued at depreciated replacement cost. **Please see page 34 for details for further in relation to build costs.**

To assess whether an impairment of the Baird Family Hospital and ANCHOR Centre existed as at 31 March 2023, management instructed their valuer to provide Depreciated Replacement Cost valuations for the projects. This valuation was not available to management until 11 June 2023. Management included an estimated impairment within their draft accounts presented to audit of £37 million based on 25% impairment worst case scenario. The accounts have been amended to reflect the actual impairment of £4.024 million. This included as an adjustment misstatement within Appendix 1. Our valuation expert has reviewed the methodology. We have also discussed and challenged the approach with the DV/VOA. We have used a point estimate using BCIS build cost rates to assess the reasonableness of the valuation. We have no issues to raise regarding this work.

Significant risk and Key Audit Matters (5)

Other significant risks identified in our Audit Plan

Commentary

Management override of controls

As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' 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 the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

Our initial planning work identified that journals are prepared by a separate officer to the officer posting the journal. However there is no control in place to prevent officers circumventing this segregation of duties. Our work also identified that the Deputy Director of Finance and the Assistant Director of Finance have access rights to post journals to the financial system. We do not expect senior members of the management team to have the ability to post journals as this increases the opportunity for management override of controls. We understand that they only tend to post journals on the rare occasions when the value of the journal exceeds the posting levels of other staff. We are aware of compensatory controls that management have in place. We have factored this into our testing assessment.

In response to the risk highlighted in the audit plan we carried out the following work:

- Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;
- Analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals;
- Tested the high risk journals we have identified;
- Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;
- Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.;
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions;
- Reviewed the compensating controls put in place by management for journals posted by the Deputy Director of Finance and Assistant Director of Finance.

Our results

Our testing of journals to date has identified two control weaknesses:

- 386 journals that had been prepared and posted by the same officer. Lack of segregation of the officer who prepares and the officer who posts the journals increases the risk of management override of controls. We have incorporated this into our testing approach. These journals have been assigned a higher risk scoring. We have also tested all journals prepared and posted by the same officer with a value over £2.248 million. Our testing to date has not identified any issues with the same officer preparing and posting journals.
- The Deputy Director of Finance, and the Assistant Director of Finance could post journals. We are pleased to confirm that they have not posted any journals during 2022/23.

Significant risks and Key Audit Matters (6)

Other significant risks identified in our Audit Plan

Commentary

Management override of controls (continued)

We have raised associated recommendations to address these control weaknesses within our action plan at Appendix 2.

Our work has not identified any other issues to bring to your attention and we have not identified any indication of management override of controls.

Significant risks and Key Audit Matters (7)

Other significant risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions

As set out in ISA (UK) 240 (Revised May 2021) 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 revenue received through Revenue Resource Allocations direct from Scottish Government.

Similarly funding from services commissioned from the Joint Boards (IJBs) and revenue from other Scottish Boards is forecast and is confirmed by funding letters/inter-Board funding agreements, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. As such, we rebutted the risk of fraud in revenue in relation to these income streams.

Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities.

Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at NHS Grampian, we have determined that the risk of fraud arising from revenue recognition cannot be rebutted in respect of other income. In 2022/23 Health Boards continued to face significant external pressure to deliver planned budgets and minimise any additional overspends.

We reassessed this risk on receipt of the draft accounts and considered this assessment remained appropriate.

In response to the risk highlighted in the audit plan we carried out the following work:

- Evaluated your accounting policy for recognition of Other Income for appropriateness and compliance with the NHS Accounting Manual and FREM;
- Performed substantive testing of Other Income transactions at and around year end to verify the accounting period the transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Reviewed post year end receipts and verify the accounting period these transactions relate to and confirm they have been accounted for in the correct accounting period; and
- Reviewed 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.

Our results

We identified a misstatement in relation the Road Traffic Accident income and associated debtor. The projected error is £0.930 million, which has been included as an unadjusted error in Appendix 1.

Significant risks and Key Audit Matters (8)

Other significant risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (continued)

The impact of this error is the overstatement of Other Income and the corresponding overstatement of debtors.

Our testing of Income from other NHS Scotland Bodies identified £5.935 million of was misclassified within other operating expenditure. NHS Grampian have adjusted for £4.957 million – an increase of £4.957 million to Note 4 – Income from other NHS Scotland bodies and a corresponding increase to Note 3 Other operating expenditure. £0.987 million has not been corrected and is reported within appendix 1 as an unadjusted misstatement.

We have also raised an associated recommendation in Appendix 2.

Testing of Income from other NHS Scotland bodies also identified £2.231 million misclassified within Non-NHS other income. This is a reclassification of income between lines reported in Note 4 – Operating Income - a £2.231 million increase to Income from other NHS Scotland Bodies and a corresponding decrease to Non-NHS other income. This is recorded in Appendix 1 as a disclosure adjustment.

Other than the matters reported above, we have not identified any material issues in relation to revenue recognition.

Significant risks and Key Audit Matters (9)

Other significant risks identified in our Audit Plan

Commentary

Risk of fraud in expenditure

As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

NHS Grampian'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 completeness of following non-payroll expenditure streams: independent primary care services, drugs and medical supplies and other healthcare expenditure. Our testing included a specific focus on year end cut-off arrangements, including consideration of the existence of accruals in relation to non payroll/non finance expenditure.

In response to the risk highlighted in the audit plan we carried out the following work:

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounting Manual and FReM;
- Performed 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 accounting period;
- Reviewed 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; and
- Reviewed the alternative arrangements you made in response to disruption during 2022/23 due to the eFinancials system patch issue.

Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non payroll/non finance expenditure.

Our results

During the disruption to eFinancials during 2022/23 invoices were paid manually during this period.

Our audit testing of automated accruals which are generated from the PECOS (procurement) system has identified the following issues.

The purchase order accrual included a material error where goods had been incorrectly receipted by a member of staff within the PECOS system. This was appropriately manually corrected by the management accountants by a journal and therefore the financial statements were not overstated. This manual intervention was required to correct the error. Our work also identified a similar material error in April 2023, which had also been corrected.

Significant risks and Key Audit Matters (10)

Other significant risks identified in our Audit Plan	Commentary
Risk of fraud in expenditure (continued)	<p data-bbox="891 320 1227 352">Our results (continued)</p> <p data-bbox="891 373 2085 480">The PECOS system does not have any matching controls (e.g. receipt to purchase order). Matching controls are at a later stage of the process (during payment) where eFinancials will reject orders which do not match to purchase order, receipt and invoice.</p> <p data-bbox="891 501 2096 644">This means that year-end purchase order accruals derived data from the PECOS system could be misstated if items have not been receipted correctly. We understand large errors would be picked up during their review of accruals / budget monitoring as evidenced in the above example.</p> <p data-bbox="891 665 1827 697">We have raised an associated control recommendation with Appendix 2.</p> <p data-bbox="891 718 2114 975">Our substantive sample testing of six purchase order accruals identified two errors totalling £0.04 million due to over receipting and purchase order which remained open after the invoice had been manually processed. Due to the nature of these errors, we selected a further of purchase order accrual sample for testing. Our additional testing identified a further error. The result from both of our samples of testing, is a non material projected misstatement of £5.367 million (overstatement of accruals and corresponding overstatement of expenditure). This is recorded in Appendix 1.</p> <p data-bbox="891 995 2096 1061">Other than the matters reported above, we have not identified any material issues in relation to expenditure recognition.</p>

Other risks

Other risks identified in our Audit Plan

Implement of IFRS16

IFRS 16 was implemented by central government bodies under the FReM from 1 April 2022. Under IFRS 16 a lessee is required to recognise right-of-use assets and associated lease liabilities in its Statement of Financial Position. This will result in significant changes to the accounting for leased assets and the associated disclosures in the financial statements in the year ended 31 March 2023.

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. IFRS 16 requires all leases to be accounted for ‘on balance sheet’ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases. IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating).

Commentary

In response to the risk highlighted in the audit plan we carried out the following work:

- evaluated the reasonableness and appropriateness of the inputs and assumptions used, especially the discount rate applied in determining the lease liability;
- agreed on a sample basis, the accuracy of the data used by tracing them to the original contracts;
- checked the mathematical accuracy of the calculations undertaken by management to determine the amounts to be recognised in the Statement of Financial Position; and
- assessed the completeness of disclosures within the financial statements in accordance with the applicable standards.

Our results

As at 31 March 2023, NHS Grampian held right of use assets of £40.044 million *and* £32.454 million to the Statement of Financial Position. As part of our audit work, we have reviewed the leases in place at the Board. This included considering the arrangements used by management to identify potential lease arrangements. Our audit work has not identified any weaknesses in the processes used by management to identify contracts containing a lease.

Substantive audit procedures have also been performed to confirm the accuracy of the lease calculations and disclosures in the financial statements including lease start and dates, annual payments and application of an appropriate discount rate. Our audit work also identified that the land depreciation charge for the year of £0.338 million was incorrect classified within buildings depreciation charge for the year. We have concluded our work on the addition of right of use assets and liability to the Statement of Financial Position and no other issues were identified.

We reviewed the disclosures made within Note 16 Leases and amendments were made to the note to enhance the information provided on the impact of implementation of IFRS 16. These disclosure amendment have been updated for in the Note 16 Leases and included within Appendix 1.

Other areas impacting the audit

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Conclusion
<p>Nil net book value assets</p> <p>The Board's draft asset register included £64.388 million of assets (plant and equipment) with a nil net book value and are fully depreciated in the asset register.</p>	<p>There are two risks in relation to this issue:</p> <ul style="list-style-type: none"> • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and • if these assets are operational, there is a risk that the Board is not assigning appropriate asset lives to its plant and equipment assets. <p>The potential impact of these risks is that the gross cost and accumulated depreciation disclosed within Note 7a Property, plant and equipment is overstated. There is no impact on the primary financial statements, which comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, and the Consolidated Statement of Cash Flows and the Consolidated Statement Changes in Equity.</p>	<ul style="list-style-type: none"> • Management have undertaken an assessment as to satisfy themselves that these assets do exist. This assessment identified that £5.885million of the £64.388million of assets held at nil net book value do not exist. This has been included as an unadjusted misstatement within Appendix 1. • Our audit work confirmed that this assessment was reasonable. • We have requested representation on this matter within the letter of representation. • We have raised an associated recommendation within Appendix 2.

Financial Statements – key judgements and estimates (1)

As required in NHS Grampian's Accounting Policies note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £503.985 million	<p>Land and buildings comprises £479.576 million of specialised operational assets (such as the Aberdeen Royal Infirmary) valued at depreciated replacement cost at year end, on a modern equivalent basis. Land and buildings of £24.409 million which are not specialised in nature (such as Forres Health Centre) and is required to be valued at existing use in value (EUV) at year end.</p> <p>NHS Grampian has engaged the District Valuer/Valuation Office Agency (DV/VOA) in their capacity as valuation professionals to value the Trust's land and buildings. Through our review of the DV/VOA's approach, we understand that the DV/VOA apply an internally generated build cost, based on cost data held by the DV/VOA from a selection of NHS building projects that they have been involved in. They refer to this as a 'beacon' approach. We have requested access to this data so we can corroborate the accuracy and relevance of the data they have used. The DV/VOA have been unwilling to provide us access.</p>	<p>Our work carried out in relation to the valuation of land and building is detailed on pages 21-23. As noted on page 23 we have identified an issue in relation floor plans used within valuations with an unadjusted misstatement identified at Appendix 1. Note 1.29 Key sources of judgement, estimation and uncertainty has been amended to enhance the disclosures in accordance with International Accounting Standard 1, as noted in Appendix 1.</p> <p>We have carried out our work in accordance with revised ISA540 requirements; including testing of completeness and accuracy of the underlying information used in the valuation, challenge of appropriateness of key assumptions and consideration of adequacy of disclosure of estimate in the financial statements.</p> <p>Upon the receipt of the Montagu Evans report in mid-June, we have requested access to the source data from DV/VOA but we have not been allowed access to the data. In the absence of being able to corroborate the DV/VOA build cost data, we have completed audit procedures to establish a valuation we would expect, using all the other variables we can verify, using an appropriate BCIS index for hospital buildings.</p> <p>We verified all the other source data relevant to NHS Grampian's assets, namely the size of the buildings. We then recalculated our own estimate and to determine a potential value applying the BCIS for General Hospitals over 15,000sqm and Mental health, psychiatric hospital facilities instead. For all of your assets except Aberdeen Royal Infirmary (ARI), Dr Grays Hospital and Royal Cornhill Hospitals we were able to determine that the valuation determined by the DV/VOA was broadly in line with Industry standards. However, particularly in relation to the ARI which comprises large, often older building stock, the valuation estimate we determined is significantly different to the DV/VOA valuation.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.</p>

Financial Statements - key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Land and Buildings continued	<p>The National Audit Office (NAO), on behalf of auditors, has also commissioned their own valuation expert, Montagu Evans to provide assurance as to the reasonableness of the DV/VOA approach. We received their report in mid-June, which caveated this approach. Montagu Evans had not been able to review any of the source data that underpins the DV/VOA's approach and have not been able to give auditor's assurance that it is reasonable. They have raised a number of issues for individuals to address directly with the DV/VOA, including:</p> <ul style="list-style-type: none"> • Raising the inconsistency of use of professionally recognised data sources in their approach • Request the source data from the DV/VOA in order to verify its relevance and accuracy • Understand why either BCIS or 'beacon' costs had been applied within each valuation. <p>We have engaged our own auditor's experts, Wilks Head and Eve. They have confirmed that it could be reasonable for the DV/VOA to apply a build cost estimate based on their own cost data, but auditors would need to verify the accuracy and relevance of this data.</p> <p>We have discussed this approach with our firm's internal valuation team and they have also advised that the costs applied cannot be assessed without corroboration of the source data used by the DV/VOA.</p>	<p>We have carried out additional audit procedures. This included further discussions with our external auditor's expert, internal valuation expert, audit quality specialists and the DV/VOA. We developed a detailed auditor estimate based on componentisation of the buildings. We determined an appropriate value using BCIS rates and compared this to the valuation provided in the accounts, resulting an overall understatement of £4.979 million.</p> <p>We identified specific components outside our expectation and we challenged the DV/VOA on these. Through investigation, the DV/VOA identified an error in valuation of the ARI resulting in a £5.510 million understatement of the asset. There is a £0.531 million overstatement between the misstatement identified by the DV/VOA and our calculation based on BCIS rates. An unadjusted net understatement of £4.979 million is reported in Appendix 1.</p> <p>We are satisfied that there is unlikely to be a materially different value if BCIS rates were used, however we are unable to corroborate that the DV/VOA's approach. If there was an error in their data or calculations, we have been unable to have the opportunity to identify. Whilst we are satisfied the value is not materially misstated as at 31/3/2023, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations. We have raised a recommendation in Appendix 2.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.</p>

Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property, Plant and Equipment: depreciation including useful economic lives (UELs). – £26.914 million</p>	<p>NHS Grampian's approach to depreciation is set out in accounting policies:</p> <p>Note 1.7c – Property, plant and equipment - depreciation</p> <p>Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.</p> <p>Property, plant and equipment which have been reclassified as 'held for sale' ceases to be depreciated upon the reclassification. Assets in the course of construction are not depreciated until the asset is brought into use.</p> <p>Property assets lives are provided by the valuers.</p>	<p>Our testing of Land and Buildings valuations and discussions with the valuer included an assessment over asset lives.</p> <p>We also reviewed the useful lives of plant and equipment. Our work identified two issues:</p> <ul style="list-style-type: none"> • Assets with lives outwith the range of lives outlined within Note 1.7c to the Accounting policies; and • Assets which were fully depreciated with a nil net book value held in the fixed asset register. <p>Our work in relation to these issues is documented on page 31.</p> <p>Conclusion</p> <p>From our work performed, we were able to gain reasonable assurance over the depreciation charge of property, plant and equipment. As documented on page 31, an unadjusted error of £5.885 million was identified in relation to existence. This has been included as an unadjusted misstatement within Appendix 1. We have raised recommendations within Appendix 2 in relation to these matters.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.</p>

Financial Statements – key judgements and estimates (5)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Commitments under HUB schemes – £66.217 million</p> <p>The total obligation recognised in the Comprehensive Statement of Financial Position (Note 18)</p>	<p>NHS Grampian has six HUB schemes - Aberdeen Community Health Care Village, Woodside Heath Centre, Forres Health Centre, Inverurie Energy Centre, Inverurie Health Centre and Hub and Forsterhill Health Centre. These are accounted for under IRIC 12 Service Concession Arrangements, as interpreted by the FReM, as “on-balance sheet” by NHS Grampian.</p> <p>The HUB models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> • review of key assumptions input into the HUB models; • use of specialist software to gain assurance that the HUB model has been appropriately updated for the period ended 31 March 2023; • agreeing that accounting entries from the accounting model have been accurately recorded in NHS Grampian's accounts. <p>Conclusion</p> <p>Our work in this area finalised and we have no concerns to report to you.</p> <p>The disclosures within Note 18 Hub Schemes have been enhanced as outlined in Appendix 1.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Financial Statements – key judgements and estimates (6)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Accruals - £50.486 million Note 12 Trade and other payables</p>	<p>NHS Grampian accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recording in the year to which it relates. NHS Grampian has two main types of accruals</p> <p>Manual accruals</p> <p>These are largely based on non purchase order based accruals. Examples include integrated care service expenditure, pay award accruals and vaccination cost accruals. These are often based on best available information.</p> <p>GRNI accruals</p> <p>These are accruals for goods received but not yet invoices (GRNI). These are automated accruals which are based on purchase orders issued to suppliers, for which the goods have been receipted. There is less estimation in these as the invoice that will subsequently be received should be matched to the purchase order which is based on approved price lists.</p>	<p>We have performed substantive testing on a sample of both manual and GRNI accruals. Our work to date has identified errors in two accruals (sample of six) from our testing of GRNI accruals. We have selected an additional sample of GRNI accruals for testing.</p> <p>Conclusion</p> <p>We extended our sample of GRNI to gain further assurance of the extent of this issue. Our additional testing identified a further error. The result from both of our samples of testing, is a non material projected misstatement of £5.367 million (overstatement of accruals and corresponding overstatement of expenditure). This is recorded in Appendix 1.</p> <p>We are satisfied that there are no material issues from our work performed.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.</p>

Financial Statements – key judgements and estimates (7)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Clinical and medical negligence claims:</p> <ul style="list-style-type: none"> - provision £154.579 million Note 13 provisions - reimbursement of provision £153.782 million Note 9 Trade and other Receivables 	<p>NHS Grampian participates in the NHS Scotland's Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) which indemnifies it from financial implications from clinical and other specified claims exceeding £25,000.</p> <p>Ongoing cases are reviewed by the NHS Grampian's appointed legal counsel, the Central Legal Office (the 'CLO') on a monthly basis to determine the likelihood of liability and settlement. The judgements taken by the CLO inform the amounts recognised as assets / liabilities / disclosed as contingencies within the financial statements. The amounts to be recognised are derived using a nationally agreed "scoring system" with the scores being assigned to each case by a legal professional at CLO and reported to the Board in the form a report on a monthly basis. 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' at nil. The balance of the value of claims not provided for is disclosed as a contingent liability.</p>	<p>We have reviewed clinical and medical legal claims and CNORIS provisions and have confirmed that the amounts recognised are in accordance with advice received from the CLO in relation to claims outstanding as at 31 March 2023 against the NHS Grampian. We have received assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO.</p> <p>Conclusion</p> <p>There has been one adjustment made to the provision due to an incorrect score provided in the March 2023 report. This error was identified by NHS Grampian and corrected resulting an understatement to the provision of £20 million (Appendix 1). Our audit work identified two issues, which have been corrected for:</p> <ul style="list-style-type: none"> • the utilisation of the provision was incorrectly accounted for against income, the impact of this error is £5.624 million understatement of income and expenditure; and • category 1 claims were omitted from the disclosure as a contingent liability for both 2021/22 and 2022/23 (as noted also on page 44). <p>We are satisfied that the provision has been appropriate amended and is not materially misstated as at 31 March 2023 and has been appropriately reflected in the final financial statements.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Financial Statements – key judgements and estimates (8)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Participation in CNORIS</p> <p>– £63.669 million</p> <p>Note 13 Provisions</p>	<p>NHS Grampian is a participant in the CNORIS scheme and is therefore liable to meet the cost of contributions to the scheme in future years and is required, additionally, to provide for NHS Grampian's share of the total CNORIS liability of NHS Scotland as advised by the Scottish Government.</p>	<p>We have agreed NHS Grampian's share of the CNORIS as advised by Scottish Government. We have received assurance from Audit Scotland on the methodology used by the Scottish Government to estimate the total value of the CNORIS national obligation at 31 March 2023 and how the total value is apportioned to each health board.</p> <p>Conclusion</p> <p>Our work is concluded in this area, and we have no matters to raise.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>
<p>Assessment of leases</p> <p>– £40.044 million</p> <p>Net book value of right of use assets (Note 16a)</p>	<p>NHS Grampian determines the amounts to be recognised as the right-of-use asset and lease liability for embedded leases based on the stand-alone price of the lease and non-lease component or components. This determination reflects prices for leases of the underlying asset, where these are observable; otherwise, it maximises the use of other observable data, including the fair values of similar assets, or prices of contracts for similar non-lease components. In some circumstances, where stand-alone prices are not readily observable, the entire contracts are treated as a lease as a practical expedient. Right-of-use assets held under "peppercorn" leases are measured at existing use value.</p>	<p>We reviewed your assessment of the estimate considering the requirements of ISA (UK) 540 requirements. Further detail of our audit procedures is included on page 30.</p> <p>Conclusion</p> <p>Our work is concluded in this area, and we have no matters to raise.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other key elements of the financial statements (1)

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
Matters in relation to fraud and irregularity	It is NHS Grampian'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 officers and those charged with governance regarding NHS Grampian's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of NHS Grampian's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
Matters in relation to related parties	We have identified one related party transaction that was omitted from the draft financial statements that has been added in the final version. We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.
Matters in relation to laws and regulations	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. We have not identified any cases of money laundering or fraud at NHS Grampian.
Other information	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. Minor amendments have been made to the Annual Report and we are satisfied that there are no material inconsistencies to report.

Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	<p>We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the NHS Scotland Manual for Accounts and the FReM. The Governance Statement is included within the Accountability Report and sets out how NHS Grampian has been governed during 2022/23 and would reference any significant issues to the date of the audit opinion.</p> <p>The report sets out how NHS Grampian has been governed during 2022/23, 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. 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> <p>The Governance Statement has been amended to reflect findings from an internal audit review of NHS Grampian's ransomware. See Appendix 1 for further details. The Governance Statement has also been enhanced to ensure all disclosures requirements of the FReM and NHS Scotland Manual for Accounts are met. This is reported in Appendix 1. We have nothing report in respect of these matters.</p> <p>No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<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 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>
Opinion on other aspects of the annual report and accounts	<p>We are required to given an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly in accordance with the requirements of the National Health Service (Scotland) Act 1978, and directions thereunder. We have identified minor changes to the disclosures, which are reported fully in Appendix 1.</p>

Other key elements of the financial statements (3)

Issue	Commentary
Regularity	<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 Accountability (Scotland) Act 2000. In our opinion in all material aspects 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>
Written representations	<p>A letter of <i>representation</i> has been requested from NHS Grampian as required by auditing standards. We have requested representation on two matters: assets held at nil net book value (see page 31), and two prior period adjustments (see page 44).</p>
Going concern	<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 2022). The Financial Reporting Board 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 NHS Grampian meets this criteria, and so we have applied the continued provision of service approach.</p> <p>Note 1.4 of the financial statements and Note 3 of the Directors Report have been amended to include disclosure regarding NHS Grampian’s forecast financial position for 2023/24 over the next five years, discussions with Scottish Government over the provision of funding cover (known as “brokerage”) and continued operational existence.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified; and • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.





















Other responsibilities under the Code

Issue	Commentary
National Fraud Initiative	<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 NHS Grampian, receive matches for investigation.</p> <p>As part of our audit work in the current year we considered the progress made by NHS Grampian in investigating matches. NHS Grampian has put processes and arrangements in place to investigate matches. Appropriate personnel are involved in the process.</p> <p>There are 4,986 matches identified for NHS Grampian with 29 currently closed on the NFI database. Approximately 90% of the matches relate to duplicate records for creditors by various matches and the remaining relate to payroll.</p> <p>We recommend that progress updates are provided to the Audit and Risk Committee to provide oversight and NHS Grampian consider completing the self-appraisal checklist referred to in the 2021 NFI Report (recommendation raised in Appendix 2).</p>

Other findings – other matters





Other matter	Commentary	Auditor view
Prior year adjustments identified – Note 14 Contingent liabilities and assets	A prior period adjustment was identified in Note 14 Contingent liabilities and assets. Clinical and negligence claims are assessed by the Central Legal Office (CLO) and assigned a score. Score 1 claims are required to be disclosed as contingent liabilities. The 2021/22 and 2022/23 contingent liabilities were omitted from the draft accounts.	<ul style="list-style-type: none"> Note 14 Contingent liabilities and assets has been amended to include this disclosure for both 2021/22 and 2022/23. This amendment is included within Appendix 1. There is no impact on the primary financial statements. International Standards on Auditing 580 requires auditors to obtain specific representation made to correct prior period financial statements and comparative information. We have therefore requested specific representation with the Letter of Representation. <p>Management response</p> <ul style="list-style-type: none"> Management have amended the accounts for this.
Prior year adjustments identified – Note 5 Segmental reporting	NHS Grampian has changed their reporting segments. The 2022/23 figures have been updated in the final financial statements to reflect this. The 2021/22 figures have also been restated.	<p>Auditor view</p> <ul style="list-style-type: none"> Note 5 Segmental reporting has been amended to include this disclosure for both 2021/22 and 2022/23. This amendment is included within Appendix 1. There is no impact on the primary financial statements. International Standards on Auditing 580 requires auditors to obtain specific representation made to restate prior period financial statements and comparative information. We have therefore requested specific representation with the Letter of Representation. <p>Management response</p> <ul style="list-style-type: none"> Management have amended the accounts for this.

Other findings – Information Technology (1)

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
EFinancials	ITGC assessment (design, implementation and operating effectiveness)	 Green	 Green	 Green	 Green	All significant risks
Wellsky	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in expenditure recognition
PECOS	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in expenditure recognition
Real asset management	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Land and building valuation
Electronic Staff Record	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	N/A

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

Assessment

-  **Red** - Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Amber** - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** - Not in scope for testing

Other findings – Information Technology (2)

In our Audit Plan we reported that on 4 August 2022, One Advanced (the supplier of eFinancials) was hit by a ransomware attack. They provide outsourced hosting services to a number of audited bodies. This issue impact on both financial and non-financial systems. In response to this risk, we made inquiries to ascertain whether NHS Grampian was affected by the events. Our inquiries confirmed that NHS Grampian was not affected by this attack. We also performed specific procedures in relation to the disruption to the eFinancials system following the update from version 5 to version 6. We observed the following results:

IT system	Event	Result	Related significant risks/ risk / observations
EFinancials	System upgrade from version 5 to 6	DbCapture caused disruption across health boards to accounts payable service and as a result there had been delays in paying suppliers and document images are not saved into the Finance System when invoices are paid through this method. During this period NHS Grampian reverted paying invoices manually.	We are satisfied that there is no significant risks arising from this and we have no findings to report to you.

Cybersecurity

As highlighted above, there is a significant risk of cyber-attacks to public bodies. It is essential appropriate cyber security arrangements are in place. Incidents can have a significant impact on both the finances and operation of an organisation. Internal audit undertook a review of NHS Grampian's review on Ransomware which resulted in four high risk findings and a critical rated report. The recommendations from this report should be implemented as soon as possible with appropriate monitoring arrangements put in place.

Service auditors reports

NHS Grampian 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.

During 2022/23 the service audit reports relevant were:

- NHS Ayrshire & Arran ISAE 3402 Type 2 - Assurance Report On Internal Controls Over National Single Instance Financial Ledger Services - unqualified
- NHS National Services Scotland - IT Services - unqualified
- NHS National Services Scotland - Practitioner and Counter Fraud Services - unqualified

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 reliance on their work. From consideration of the reports, we are therefore satisfied that the unqualified opinions do not impact on our audit work.

Wider scope conclusions

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk based audit approach to wider scope. Within our audit plan we identified one wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Financial Sustainability</p> <p>We are required to look ahead to the medium and longer term to consider whether NHS Grampian is planning effectively so that it can continue to deliver services.</p>	<p>Significant</p>	<p>Through our cumulative audit knowledge and planning risk assessment we identified a significant audit risk in relation to NHS Grampian's financial sustainability arrangements - future financial plans for 2023/24 and beyond. From our work performed, we have concluded that a significant risk remains in this area.</p> <p>Prior to the Covid-19 pandemic, the Scottish Government introduced a requirement for all health boards to produce a three-year financial plan as part of the medium-term financial framework however, this was paused due to the pandemic. NHS Boards were asked to complete a one-year plan for 2022/23 by the end of March 2022. A one-year financial plan was submitted by NHS Grampian to the Scottish Government on 21 March 2022. As recovery from the covid-19 pandemic gets underway, NHS boards have returned to medium-term financial planning and have prepared three year plans covering the period 2022/23 to 2024/25. There is now a return to formal three year financial planning from 2023/24 with updated financial plans submitted to Scottish Government in March 2023 covering the period 2023/24 to 2025/26.</p> <p>2022/23 Plan and Outturn</p> <p>In April 2022 the Board agreed its budget for 2022/23 alongside the Medium Term Financial Framework (MTFF). The budget agreed for the financial year, anticipated a forecast deficit of £19.9 million based on the board delivering a level of 1.0% efficiency savings of £5.4 million (excludes IJBs). This was the first time that NHS Grampian had highlighted that it would not be able to return to a breakeven position.</p> <p>During the first quarter of the 2022/23 financial year NHS Grampian incurred an overspend against budget of £10.771 million. The overspend continued to rise during the early part of the 2022/23 financial year and NHS Grampian along with other NHS Boards in Scotland were asked to deliver plans to recover the financial position back to the initial budget of an in-year deficit position of £19.9 million.</p>

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		<p>A local value and sustainability plan was developed by NHS Grampian to deliver efficiency savings to recover the financial position.</p> <p>During 2022/23, monthly overspends were reported and the majority of overspends incurred related to pay. From review of financial monitoring reports the reasons for the large pay overspends related to staffing pressures which has resulted in the use of increased and expensive agency costs. NHS Education Scotland's 'NHS Scotland Workforce Turnover Report' indicates, the average rate of staff turnover for NHS boards is 9.4%. The average rate of turnover for NHS Grampian is 10.8%, which is one of the highest staff turnover rates for NHS Boards in Scotland, positively NHS Grampian's turnover rate has improved since 2021/22. Increased turnover impacts on pay costs where more reliance is put on bank and agency staff to cover vacant posts. This is a likely contributing factor to the overspends against pay.</p> <p>NHS Grampian has recently issued their new strategy 'Plan for the Future 2022-2028'. This refreshed strategy includes a workforce plan for 2022-2025. The Integrated Workforce Plan provides information regarding the profile of NHS Grampian's current workforce. Based on this and information from services about workforce requirements, a number of high-level actions have been identified aimed at responding to ongoing challenges with supply in particular recruitment and retention of Nurses and Midwives, Doctors, Allied Health Professionals; the aging workforce and the implications of working longer; the impact of supplementary staffing; and the need to provide safe, effective and quality services through a time of significant change. Actions outlined throughout the Plan, are managed through the Workforce Plan Action Plan for tracking progress across the organisation in achieving actions, highlighting risks to successful implementation and steps being taken in mitigations over the next 3 years.</p> <p>Being the first year of implementation it is currently too early to comment on the effectiveness of the workforce plan however we continue to see throughout the 2022/23 year, a higher than average staff turnover rate and high use of agency and bank staff. NHS Grampian are working to create a sustainable workforce over the longer term. This includes working with partners to collaboratively address the underlying issues including the rurality of the Grampian region and diversifying its workforce. We have raised a recommendation within Appendix 3 that the Board should continue to monitor progress made against action plans and workforce plans to ensure there is a depth of pace to improving performance in this area.</p>

Wider scope audit (3)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		<p>In March 2023, NHS Grampian received £15.2 million of additional funding from the Scottish Government for Grampian specific system pressures. This was allocated against non-pay budgets and supported the Board to achieve a break even position for 2022/23. It is important to note this income is non-recurrent and not expected to be received in future years.</p> <p>Savings outturn</p> <p>The 2022/23 finance plan submitted to the Scottish Government in March 2022 forecast a savings requirement of £5.4 million would be required to be achieved to meet revenue financial targets. At 31 March 2023 NHS Grampian achieved delivery of £10.184 million of savings. This is split between £2.201 million recurring and £7.983 million non-recurring savings. Although it is positive to note that NHS Grampian exceeded its savings target, it is important to note that 78% of the savings delivered are non-recurrent and therefore will not be available as efficiencies in future years. This provides a heightened risk of delivering financial sustainability and the limitation to increase savings and efficiencies in future years minimises through non-recurrent savings already utilised.</p> <p>2023/24 Financial Planning and Beyond</p> <p>The financial plan submitted to the Scottish Government budgets a deficit position of £60.6 million for 2023/24 (after delivery of savings of £16.5 million) reducing to £59.4 million in 2024/25 and £52.9million in 2025/26. The MTFE highlights a forecast deficit position for the next five financial years. The increase in the overspend position in 2023/24 is significant and outlines concerns over the future financial sustainability of the health board where additional funding is not provided or where the board do not operate within its funding allocation. We have raised an associated recommendation within Appendix 3. This creates a risk in itself, as NHS Grampian will have to balance ensuring that it maintains financial sustainability with ensuring it continues its service delivery to provides safe and effective care for its patients. The 2023/24 financial plan outlines a requirement to deliver £16.557 million of savings and efficiencies in order to achieve the planned deficit position.</p> <p>The savings plan shows that £13.226 million is estimated to be recurrent and £3.331 million non-recurrent savings. Within the finance plan £8.5 million of the recurrent savings is estimated to be of high risk of delivery. The slippage and/or non-delivery of these planned savings/efficiencies could result in significant challenges for the Board in its ability to deliver its financial position.</p>

Wider scope audit (4)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		<p>The MTFF has a number of risks attached within the forecast such as pay awards which are still being negotiated at a national level, impact of winter pressures and rising inflation levels, which if crystalised, could increase the planned financial deficit outturn.</p> <p>The MTFF also presents a sensitivity analysis which highlights the implications of changes in assumptions in these key risk areas. It is positive to note that NHS Grampian understands and recognises the risks and challenges it faces in relation to the financial outlook and has undertaken a review of its MTFF in order to assess the potential best and work case scenarios it may find itself facing due to the financial risks it faces.</p> <p>In response to this significant risk NHS Grampian does recognise the challenges that it faces in relation to financial sustainability and work has been undertaken during the last quarter of 2022/23 to prepare a local value and sustainability programme. The purpose of this programme is to develop and deliver short term efficiency savings and over the medium to longer term work on how the health board can make sustainable services and pathways of care.</p> <p>A cross-service working group has been established to prepare and help support the implementation of this plan. This working group is chaired by senior level colleagues from the largest portfolios within the acute system. This group aims to help support the delivery of the plan and meets at least monthly to evaluate and consider progress. A number of themes have been identified to help sustain the financial position such as reduction in agency nursing and locum costs, implement no purchase order no payment arrangements, review bad debt provisions and introduce stock takes to theatre stores. The progress of the local value and sustainability programme is in its early stages however it is important that the Board continues to monitor the progress and delivery of this group and outcomes at a close level to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved.</p> <p>In order to ensure financial sustainability for the longer term, the Board will need to ensure that it is able to deliver increased productivity and efficiency initiatives in order to reduce costs and deliver financial benefits. NHS Grampian aims to upscale the pace and delivery of transformation in order to achieve this within the allocated funding it plans to receive from the Scottish Government.</p>

Wider scope audit (5)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		<p>Baird Family Hospital and ANCHOR Centre (“Baird and ANCHOR”)</p> <p>During 2022/23, NHS Grampian incurred capital expenditure of £85.1 million on the Baird Family Hospital and ANCHOR Centre.</p> <ul style="list-style-type: none"> • The Baird Family Hospital - the new hospital is to provide maternity, gynecology, breast screening and breast symptomatic services. The hospital will also have a neonatal unit, centre for reproductive medicine, operating theatre suite, Community Maternity Unit and research and teaching facilities. • The ANCHOR Centre - the new Aberdeen and North Centre for Haematology, Oncology and Radiotherapy (ANCHOR) centre will provide Oncology and Haematology out-patient and day patient services. The centre will also include an aseptic pharmacy, research and teaching facilities. <p>The Outline Business Case for this project was approved by Scottish Government in March 2018 with an estimated capital cost of £163.7 million and the Full Business Case was approved in September 2020 for £233.2 million. The estimated project costs reported in April 2023 totalled £233.2 million.</p> <p>A recent Construction Key Stage Assurance Review (KSAR) for the ANCHOR Centre was recently reported and raised concerns which the Board are working through, including in relation to ventilation and water. An update report was received by the Board in April 2023 and an action plan to respond to the Construction KSAR report is in place. We understand that collaborative arrangements have been implemented to resolve the issues. The Construction KSAR for the Baird Family Hospital is planned. Due to challenges encountered in progressing the final stages of the design of the facilities - ANCHOR centre to open in October 2023 and the Baird Family Hospital in September 2024. Any delay arising from the issues raised during the Construction KSARs will have an adverse impact on the programme timeline.</p> <p>The project progress is reported on a monthly basis to a Project Board and to the Asset Management Group (AMG). More detail on the Baird and ANCHOR project could be provided within the general Finance Reports received by PAFIC and Board. Specific project reports are received by the Board and PAFIC as required, rather than on a periodic basis throughout the project. NHS Grampian should ensure that there is regular reporting of project risks, revenue and capital costs, project progress to appropriate committee and the Board to provide assurance and ensure oversight, scrutiny and transparency (recommendation raised in Appendix 3).</p> <p>In a report to the Board in April 2023, revenue costs for the first full year of operation of £9.7million, which were included in the FBC, are incorporated into the Board’s financial planning from 2024/25.</p>

Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		<p>Given the increase in inflation since the OBC and FBC, the Board should keep all capital and revenues components of the project and future recurring operating costs under review to ensure they remain accurate. We have raised an associated recommendation in Appendix 3.</p> <p>Conclusion</p> <p>NHS Grampian has undergone a review and refresh of its financial plans and the MTF, this has identified a significant increase in the forecast deficit position from 2023/24 with no plans to breakeven in the next five financial years. We have noted the positive steps the Board has taken in recognising the significant financial challenges it faces and work is underway to implement the local value and sustainability programme. The increase in the overspend position in 2023/24 is significant, and outlines concerns over the future financial sustainability of the health board where additional funding is not provided or where the board do not operate within its funding allocation. The Board will need to closely monitor the progress and outcomes of the local value and sustainability programme and ensure that a depth of pace is attached to respond to the financial risks it faces in a timely manner. The programme should ensure it is able to increase productivity and efficiency initiatives for the Board in order to provide future financial sustainability and that the Board can operate within its anticipated funding allocation without jeopardising service delivery and care to its patients. NHS Grampian will also need to continue to monitor progress and delivery of its workforce plans to ensure the rate of staff turnover is reduced which in turn will assist with the reduction of reliance on expensive bank and agency costs.</p> <p>The Baird and ANCHOR project has seen project costs increase during 2022/23 and due to challenges encountered in progressing the final stages of the design facilities, which has led to further delays to the estimated opening of both facilities with the ANCHOR centre to open in October 2023, and the Baird Family Hospital in September 2024. Any delay to resolving this issues will have a further adverse impact on the programme timeline. Regular reporting of the project to committee and Board will be important during the remainder of the project to ensure scrutiny.</p> <p>We have identified four financial sustainability recommendations. These are included in Appendix 3. In our Audit Plan we identified a significant risk in relation to financial sustainability and given the significant financial challenges NHS Grampian faces over the longer term we have concluded that this remains a significant risk.</p>

Wider scope audit (7)

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Financial Management</p> <p>We are required to consider if NHS Grampian has effective arrangements to secure sound financial management. This includes the strength of NHS Grampian's financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.</p>	<p>No significant wider scope risks identified.</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to NHS Grampian's financial management arrangements.</p> <p>Financial performance</p> <p>NHS Grampian's Financial Plan for 2022/23 had a budgeted deficit of £19.9 million. During 2022/23, key areas of challenge included inflationary pressures, drug cost pressures and supplementary (agency and locum) staff expenditure. We assessed NHS Grampian's financial performance on page 11. A breakeven position was also achieved against the Capital Resource Limit set. NHS Grampian delivered a break-even position in 2022/23, achieving a small surplus of £0.612 million against its Revenue Resource Limit.</p> <p>This surplus was largely achieved through additional £18.2 million of non-recurrent funding received in March 2023 from Scottish Government, £10.2 million of savings and small portfolio / department underspends. The main areas of overspend were Moray Portfolio – Dr Gray's, Medicine and Unscheduled Care and Integrated Family Portfolio.</p> <p>The Financial Plan incorporated a savings target of £5.4 million (1%). Savings of £10.2 million were delivered and 24% were recurring. These savings mainly comprise of:</p> <ul style="list-style-type: none"> • 41% of savings relates to management of the untaken annual leave accrual; and • 37% procurement. <p>The graph on the following page shows analysis of planned savings compared to actual savings delivered. This shows planned savings in workforce were not delivered.</p> <p>Board Financial Management Arrangement's</p> <p>NHS Grampian has processes in place to support budget setting, financial management and reporting. These are outlined within the Board's comprehensive Standing Financial Instructions and Standards Orders, which are communicated to staff. These were last updated in 2022 and 2020 respectively. These documents do not include planned dates for review and change logs. To improve transparency of review, key documents would be enhanced by disclosing the next date of review and a document log (recommendation raised in Appendix 3).</p>

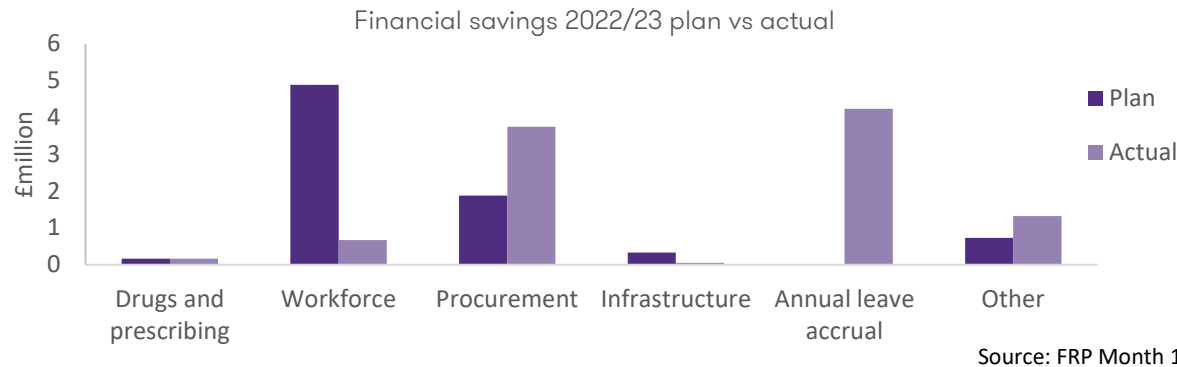
Wider scope audit (8)

Wider scope
dimension

Plan risk

Wider scope audit response and findings

Financial Management (continued)



NHS Grampian has well-developed annual financial planning arrangements. The Budget Setting Sub Group reflects at the end of each annual budget setting process to identify how the process can be improved for the next financial year. Budget monitoring is undertaken at all levels of the organisations.

There was regular financial reporting to each meeting of the PAFIC during 2022/23. These update provide a cover report with a 'Financial Performance' for the month on one page. This report provides an overview of performance to the committee. During 2022/23, the Board received a detailed financial report during 2022/23, in December 2022 and 'Financial Performance' in February 2023. Explanations for significant variances are provided in the narrative section at the start of the report. The MTFF was approved by the Board in April 2023 and received a report on the year-end financial position in June 2023.

Given the challenging financial position for NHS Grampian over the next five years, more detailed financial reporting to PAFIC and more regular financial reporting to the Board will be essential to ensure appropriate oversight, challenge and scrutiny. The format of reports could be enhanced by using a similar format used in NHS Grampian's performance reports – providing high-level summary on a page supported by more detailed information and clear explanations for significant variances (recommendation raised in Appendix 3).

As highlighted in the "Financial Sustainability" section, the Board's financial plan submitted to the Scottish Government budgets a deficit position of £60.6 million for 2023/24, after delivery of savings of £16.5 million. A new thematic approach was taken to developing the 2023/24 savings programme.

Wider scope audit (9)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Management (continued)		<p>NHS Grampian’s saving target for 2023/24 is £16.6 million fully recurrent and identified, which equates to 3% target. In March 2023, these savings were risk assessed 52% high risk, 21% medium risk and 27% low risk of delivery.</p> <p>A cross system group has been established local Value and Sustainability Group who will oversee the delivery of the savings plans in 2023/24, with quarterly monitoring to CET and bi-annual to committee. Any slippage in delivery the savings target for 2023/24 will result in an increase deficit position. Regular reporting of delivery of savings to committee is important to ensure appropriate oversight, scrutiny, challenge. We have raised an associated recommendation in Appendix 3.</p> <p>Conclusion</p> <p>We are satisfied that NHS Grampian has effective financial management arrangements in place. Given NHS Grampian’s challenging financial position during 2023/24 and over the next five years, robust and regular financial reporting to PAFIC and the Board will be important to ensure appropriate scrutiny and oversight. We have raised three recommendations to strengthen these arrangements in place.</p> <p>NHS Grampian has appropriate arrangements to prevent and detect fraud and error, further detail is included within “Vision, Leadership and Governance” section.</p>

Wider scope audit (10)

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Vision, Leadership and Governance</p> <p>We are required to consider the clarity of NHS Grampian’s plan to implement the vision, strategy and priorities adopted by the leaders of NHS Grampian.</p> <p>We also consider the effectiveness of the governance arrangements for delivery; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.</p>	<p>No significant wider scope risks identified.</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to NHS Grampian’s vision, leadership or governance arrangements.</p> <p>Assurance framework</p> <p>The Grampian NHS Board is a board of governance supported by seven committees. There are two new committees that were established in August 2022:</p> <ul style="list-style-type: none"> • The Performance Governance Committee was dissolved and replaced by the Performance, Assurance, Finance and Infrastructure Committee (PAFIC), which is responsible for monitoring performance and promoting continuous improvement; and • The Engagement and Participation Committee was also dissolved and replaced by the Population Health Committee to provide assurance and oversight over Public Health, People-Powered Health and Equality across Grampian. <p>Major decisions are made by the Board. Before significant decisions are made, they are considered by the relevant committee through the Board’s governance process before being reviewed and approved by the Trust’s Board. This allows for robust challenge over decision making. Appropriate leadership arrangements are in place.</p> <p>Policies and procedures</p> <p>NHS Grampian has appropriate policies and procedures on fraud prevention, investigation and whistleblowing, which are communicated to staff. With regular reporting to committee and an annual self-assessment against Counter fraud Standards to Audit and Risk Committee.</p> <p>Internal audit undertook a review of NHS Grampian’s whistleblowing arrangements during 2022/23. This review identified areas of good practice and three medium recommendations in relation to: capacity to manage whistleblowing cases, whistleblowing training and lack of standard operating procedure for whistleblowing.</p> <p>NHS Grampian maintains a register of interests and Code of Conduct and are available publicly on its website demonstrating transparency. Members are required to advise of any changes within one month of the change.</p>

Wider scope audit (11)

Wider scope
dimension

Plan risk

Wider scope audit response and findings

Vision,
Leadership
and
Governance
(continued)

The strategy is currently underpinned by a delivery plan, which is also linked to Scottish Government priorities. We understand a new three year delivery plan is in development, which will be submitted to Scottish Government.

Partnership working

As discussed in further detail within the “Use of Resources” section, NHS Grampian is strengthening partnership working to respond to the long-term challenges of developing sustainable health care. NHS Grampian’s key partners are three IJBs - Aberdeen City, Aberdeenshire and Moray. These bodies have delegated responsibility for the strategic planning and delivery of adult health and social care services governance by an integration scheme.

In March 2023, the internal auditors of Aberdeenshire IJB raised concerns in relation to governance arrangements (limited assurance report with major risk ratings) and transformation projects (limited assurance report). We are also aware that internal auditors have raised some issues in relation to governance arrangements at Moray IJB, including delays implementing outstanding internal audit recommendations. We understand that NHS Grampian is currently reviewing to improve the governance assurance arrangements in place in respect of the IJBs. We have raised an associated recommendation within Appendix 3.

Conclusion

We have not identified any significant weaknesses in NHS Grampian’s arrangements in respect of vision, leadership and governance.

NHS Grampian has a clear vision and strategy to respond to the long-term challenges to develop sustainable healthcare system. This strategy drives how the significant financial challenges outlined faced by NHS Grampian, as outlined in the MTFE, will be sustainably addressed.

We are satisfied that appropriate and effective governance arrangements are in place. We have identified three recommendations to strengthen the governance arrangements in place at NHS Grampian, which are included within the action plan at Appendix 3.

Wider scope audit (12)

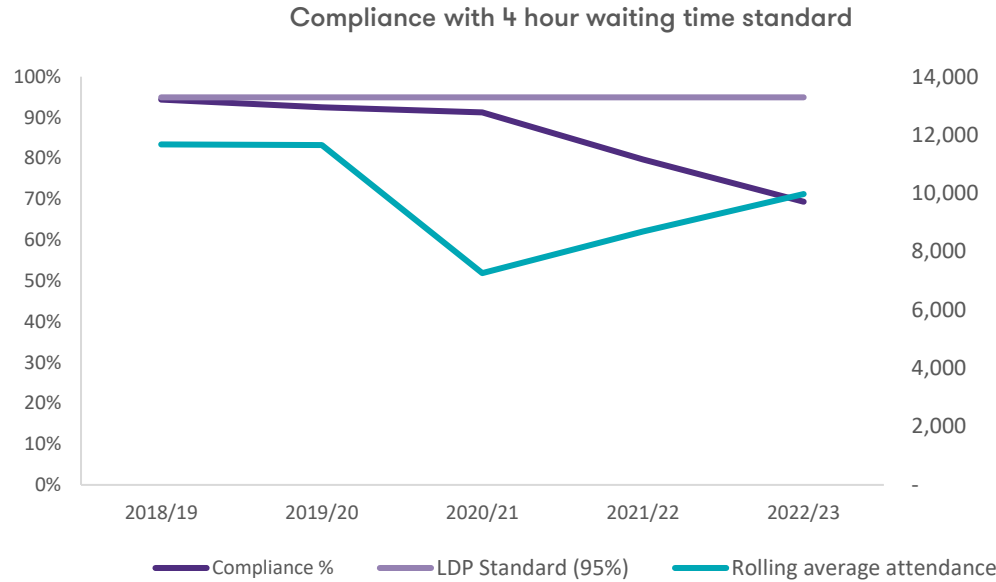
Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Use of Resources to Improve Outcomes</p> <p>We consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.</p>	<p>No significant wider scope risks identified.</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to NHS Grampian’s arrangements related to use of resources to improve outcomes.</p> <p>Performance framework</p> <p>During 2022/23 NHS Grampian refreshed and developed its performance assurance framework, to align performance management and assurance process to NHS Grampian’s strategy “Plan for the Future” and delivery plan. The aim is to provide assurance to the Grampian NHS Board that strategic objectives are being delivered. “How Are We Doing” performance report is presented at Board meetings. This report has a tiered approach:</p> <ul style="list-style-type: none"> • A high level summary across people, place and pathways with a red, amber or green (RAG) status; • At a glance scorecard provides a summary of key targets; • Performance spotlights provide a detailed focus on averse or favourable performance indicators. These spotlights include where appropriate benchmarking to other health boards. <p>Key national targets</p> <p>NHS Grampian’s performance against national targets has seen some improvements in performance, such as:</p> <ul style="list-style-type: none"> • cancer performance against the 31 day standard improved and was above 95% standard for three quarters of 2022/23; and • Child and Adolescent Mental Health Services (CAMHS) treatment within 18 weeks of referral has been above 90% target since May 2022. <p>Other areas of performance remained challenging for NHS Grampian during 2022/23, although we recognise these remain key areas of challenge across the NHS.</p> <p>95% of patients to wait no longer than four hours from arrival to admission, discharge or transfer for Accidental and Emergency (A&E) treatment</p> <p>In March 2023, 65.2% (March 2022 71.8%) of patients waited no longer than four hours from arrival to admission, discharge or transfer for A&E treatment.</p>

Wider scope audit (13)

Wider scope dimension Plan risk Wider scope audit response and findings

Use of Resources to Improve Outcomes (continued)

This target was not met during 2022/23. NHS Grampian performance is below the average performance in Scotland, which is 68%. The graph below shows that since 2020/21, a decrease in A&E performance corresponds with the increase in A&E attendance, demonstrating increasing pressure on frontline services.



Data source: National Statistics Publication – March 2023

95 per cent of patients to wait no longer than 12 weeks from referral (all sources) to a first appointment

As at March 2023, 69.4% of patients waited no longer than 12 weeks from referral to first outpatient appointment. Although the target of 95% of patients not waiting no longer than 12 weeks from referral to first appointment was not met, performance was higher than the average in Scotland. The graph on this next page shows performance against this target since July 2022 to March 2023. This shows that NHS Grampian’s performance against this target is broadly consistent with the Scottish average.

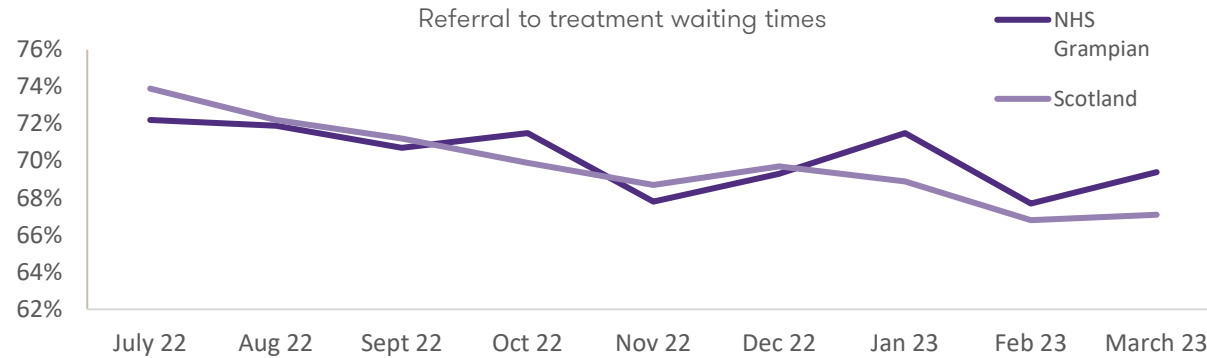
Wider scope audit (14)

Wider scope
dimension

Plan risk

Wider scope audit response and findings

Use of
Resources to
Improve
Outcomes
(continued)



Source: NHS Performs. Note - information from April 2022 to June 2022 is not available on NHS Performs website for NHS Grampian, therefore data from this period has not been included in the above graph.

Delayed discharges

NHS Grampian has seen a positive 18% reduction in the number of days patients spent in hospitals due to delays in discharge from 3,143 days in March 2022 to 2,575 days in March 2023. Compared to other mainland Scottish health boards, throughout 2022/23 NHS Grampian consistently had lower numbers of delayed discharges compared to other mainland health boards.

Working to improve outcomes and respond to challenges

The Covid-19 pandemic continues to affect the delivery of NHS services, caring for patients with Covid and responding to the challenges as a result of the pandemic, such as a significant backlog in planned care. NHS Grampian experienced continuing capacity and demand pressures at a high level during 2022/23. NHS Grampian recognises that there are a number of contributing factors including acutely ill patients arriving in hospital, workforce pressures and achieving discharge rates to bring about capacity in acute care.

During 2022/23, NHS Grampian has undertaken significant evidence based analysis to try to identify the route cause on continued pressures. This work is currently on-going and includes a review of theatre efficiency. NHS Grampian has identified that the Aberdeen Royal Infirmary bed base needs reviewed to ensure there is capacity to cope with acute care.

Wider scope audit (15)

Wider scope
dimension

Plan risk

Wider scope audit response and findings

Use of Resources to Improve Outcomes (continued)

This review is part of a wider piece of work to redesign to home to home pathway over the next five years. NHS Grampian also recognises the challenges it faces in relation to supplementary staffing costs and workforce sustainability. The rurality of Grampian area provides challenges both in provide care to the population and providing a workforce to deliver these services. NHS Grampian is working with partners to explore options to overcome these challenges, such as medics working across health board boundaries and workforce diversification.

NHS Grampian recognises the importance of partnership working to transform the health care system, to refocus on enabling wellness as well as responding to illness. Partnership working is strengthening across Grampian, building on the foundations developed during the pandemic.

A strategic partnership agreement between Public Health Scotland and North East Alliance is currently being developed, with a focus on improving population health and reduce health inequalities in the North East of Scotland. The North East Alliance comprises of nine partners: NHS Grampian, Aberdeen City Council, Aberdeen City Health & Social Care Partnership, Aberdeenshire Council, Aberdeenshire Health & Social Care Partnership, Moray Council, Health & Social Care Moray, Scottish Fire and Rescue Service, and Police Scotland.

Conclusion

The Covid-19 pandemic continues to have a lasting impact on NHS Grampian and performance delivery. NHS Grampian, like other health boards across Scotland, is facing significant system pressures, including capacity, workforce and waiting list backlogs. These operational pressures correspond to the some of the key financial pressures facing NHS Grampian.

NHS Grampian has appropriate arrangements in place to monitor progress in improving strategic plans. NHS Grampian plans reform pathways across the healthcare system, to address these challenges over the next five years ensure the sustainability of healthcare, with a refocus from treating ill patients to enabling well being and treating ill patients.

We have not identified any risk of significant weakness in NHS Grampian's use of resources.

Wider scope audit (16)

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Other wider scope areas</p> <p>In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:</p> <ul style="list-style-type: none"> - Climate change - Cyber security. 	<p>We did not identify any specific risks in relation to climate change at NHS Grampian</p> <p>We did not identify any specific risks in relation to cyber security at NHS Grampian</p>	<p>Climate Change</p> <p>We have considered six specified questions related to climate change, as mandated by Audit Scotland. We are also required to submit a questionnaire to Audit Scotland responding to the questions by the reporting deadline. We have not identified any significant risks in respect of climate change. NHS Grampian draft "Climate Emergency and Sustainability Strategy: Reimagining the Health Service for People and Planet" is due to be approved in July 2023. This sets out four outcomes on delivering net-zero, greener health systems, greening places/communities and developing wider collaborating across local and national systems. This strategy includes the corporate emission reduction target of NHS Grampian being net zero by 2040. A delivery plan is currently in development, which we understand will incorporate interim and overall targets, tracking progress over time. NHS Grampian Climate Emergency and Sustainability Strategy links directly to NHS Grampian's organisation wide strategy "plan for the future." There are appropriate arrangements in place for internal monitoring and progress is reported externally. We understand that reporting of the impact of climate change on the financial statements and in the annual report is under development.</p> <p>Cyber Security</p> <p>We have considered risks related to cyber security at NHS Grampian as part during our audit of NHS Grampian's financial statements in line with the guidance issued by Audit Scotland's Digital Audit team. Our key findings are as follows:</p> <ul style="list-style-type: none"> - An initial Network and Information Systems (NIS) Regulations Audits of NHS Grampian in 2020 found overall compliance of 30%. A follow up review in 2021 highlighted significant progress implementing them, with an increase of overall compliance to 60%. This follow up report was received by the Audit and Risk Committee in June 2022. - During 2022/23, internal audit reviewed NHS Grampian's ransomware which resulted in four high risk findings and a critical rated report. The recommendations from this report should be implemented as soon as possible with appropriate monitoring arrangements put in place. 	<p>We are satisfied that there is no significant risk in relation to climate change. NHS Grampian is in the process of developing its arrangements for sustainability including financial reporting.</p> <p>We are satisfied that there is no significant risk in relation to cyber security. Management are aware of the issues raised within the internal audit report and are addressing these. We have raised an associated recommendation within Appendix 2.</p>

Best Value

The Scottish Public Finance Manual explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. There is ministerial guidance to ensure that arrangements are in place to secure Best Value in public services.

There are seven Best Value characteristics set out within the Manual and they were reviewed as part of our risk assessment. During our audit appointment, we will undertake work on the Fairness and Equality characteristic, but we have not undertaken that work during 2022/23.

Appendices

1. Audit Adjustments (1)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Statement of Changes in Net Expenditure, the Statement of Financial Position, and the reported net expenditure of NHS Grampian for the year ending 31 March 2023.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
IJB adjustments			
Dr Other operating income	442		
Cr Other operating expenses	(442)		
Dr Joint ventures accounted for on an equity basis – Group	34,359		34,359
Cr Investments in joint ventures – Group		(34,359)	
<i>Being the inclusion of IJBs figures in the draft financial statements.</i>			
Assets under construction			
Dr Property, plant and equipment – assets under construction		32,976	(32,976)
Cr Other operating expenditure	(32,976)		
<i>Being the reversal of the estimated impairment of the Baird and ANCHOR Centre – assets under construction</i>			
Clinical and medical negligence claims			
Dr Re-imburement of provisions – long-term		19,975	0.025
Dr Clinical negligence and Employers Liability Payments	20,000		
Cr Contributions in respect of clinical and medical negligence claims	(19,975)		
Cr Clinical and medical provision – long- term		(20,000)	
<i>Being incorrect risk category applied to significant claim by management's expert (CLO)</i>			

1. Audit Adjustments (2)

Impact of adjusted misstatements (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Income from Other NHS Scotland Bodies			Nil
Dr Other operating expenditure – prescribed drugs secondary care	3,595		
Dr Other operating expenditure – medical supplies	1,362		
Cr Operating income – income from other NHS Scotland Bodies	(4,957)		
Being the reclassification of income from other NHS Scotland Bodies			
Clinical and medical negligence claims			Nil
Dr Contributions in respect of clinical and medical negligence claims	5,624		
Cr Clinical Negligence and Employers Liability Payments	(5,624)		
<i>Being the correction for utilisation of provisions previously grossed up</i>			
Endowment fund adjustments			Nil
Dr Income	2,110		
Cr Expenditure	(2,110)	954	
Dr Trade and other payables – short term – intragroup adjustment		(954)	
Cr Trade and other receivables – short term - intragroup adjustment			
<i>Being the intra-group adjustments for the endowment fund</i>			
Reversal of Aberdeenshire Integrated Joint Board accrual			Nil
Dr Other operating income	442		
Cr Other operating expenses	(442)		
<i>Being the reversal of Aberdeenshire Integrated Joint Board accrual</i>			
Overall impact	1,408	(1,408)	1,408

1. Audit Adjustments (3)

Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements on the basis they are individually and in aggregate immaterial.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Valuation of buildings			Nil
Dr Property, plant and equipment – buildings valuation		5,510	
Cr Revaluation reserve		(5,510)	
Dr Revaluation reserve		531	
Cr Property, plant and equipment – buildings valuation		(531)	
Being the understatement of buildings valuation – factual and projected respectively			
Income from Other NHS Scotland Bodies			Nil
Dr Other operating expenditure	987		
Cr Operating income – income from other NHS Scotland Bodies	(987)		
Being the misclassification of income from other NHS Scotland Bodies within other operating expenditure not adjusted for – factual misstatement			
Junior doctor pay offer – backdated pay provision			915
Dr Employee Expenditure – medical and dental	1,736		
Cr Trade and other payables - provisions		(1,736)	
Dr Trade and other receivables - boards		821	
Cr Income from other NHS Scotland bodies	(821)		
<i>Being the provision for backdated payaward for 2022/23 – judgemental misstatement</i>			

1. Audit Adjustments (4)

Impact of unadjusted misstatements (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Property, plant and equipment valuations			Nil
Dr Property, plant and equipment – buildings valuation		2,849	
Cr Revaluation reserve		(2,849)	
<i>Being the correction of floor areas within buildings valuations – projected misstatement</i>			
Road traffic accident debtor			(930)
Dr Other income	930		
Cr Trade and other receivables – accrued income		(930)	
<i>Being the projected error for road traffic accident debtor and income – projected misstatement</i>			
Assets held at nil net book value that do not exist			Nil
Dr Property, plant and equipment – plant and machinery – accumulated depreciation		5,855	
Cr Property, plant and equipment – plant and machinery – cost		(5,885)	
<i>Being the correction of assets that do not exist – judgemental misstatement</i>			
FHS Accrual as a result of post year-end actuals			547
Dr Drugs and medical supplies	547		
Cr FHS Accrual		(547)	
<i>Being the correction of the year end FHS accrual – factual misstatement</i>			

1. Audit Adjustments (5)

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
POP accrual errors			(5,367)
Dr Accruals		5,367	
Cr Other operating expenditure	(5,367)		
Being the correction of POP accruals – projected misstatement			
Overall impact	2,975	(2,975)	2,975

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor. Management did not to amend the financial statements for these errors, as they were not material. The untaken annual leave accrual is resolved in 2022/23 as this provision is reviewed annually.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Dr Trade payables and accruals		5,700	5,700
Cr Staff costs – untaken leave accrual	(300)		
Cr Other healthcare expenditure	(5,400)		
<i>Being the correction of untaken leave accrual and Purchase Order Processing (POP) accrual</i>			
Overall impact	(5,700)	5,700	5,700

1. Audit Adjustments (6)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on NHS Grampian's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Review of Annual Report and Accounts (General)	A number of minor casting errors, figures had not yet been included, formatting issues, page referencing and linking errors were identified as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	Yes
Governance Statement	The Governance Statement has been enhanced to ensure meet the requirements of the FReM and NHS Scotland Manual for Accounts. In addition the following disclosure has been added: "There were 12 Internal Audit reviews completed during 2022/23, one review was rated critical risk (Ransomware) and two further rated as medium risk (Succession Planning and Whistleblowing Arrangements) these highlighted some weaknesses known to management that are reflected in their findings. Internal Audit in preparing their opinion for 2022/23 have concluded that these findings are not pervasive to the Board's overall framework of governance, risk management and control but require to be addressed by management."	Yes

1. Audit Adjustments (7)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Remuneration and staff report	<p>Formatting changes were made to improve the presentation of the information in the Remuneration and staff report and to the clarity of which elements are subject to audit.</p> <p>Relationship between the highest paid Director and the workforce median remuneration</p> <p>The figures for 2022/23 median, 25th and 75th percentile have not yet been presented for audit. We understand that benefits in kind information is not yet available, which is required for the calculation of these figures.</p> <p>Staff composition</p> <p>The senior employee figures for 2021/22 and 2022/23 have been updated to include all employees earning over £70k in line with the NHS Accounts Manual.</p> <p>Table of remuneration – pension</p> <p>The figures disclosed for the Medical Director have been amended as follows: total accrued pension at pensionable from £55-60k to £65-70k (bands of £5,000); total accrued lump sum at pensionable age from £155-170k to £200-205k (bands of £5,000); cash equivalent transfer value (CETV) as at 31 March 2022 from £1.391 million to £1.546 million; CETV as at 31 March 2023 from £1.294 million to £1.584 million; and real increase in CETV from £-0.097 million to £0.038 million.</p> <p>Higher paid employees</p> <p>Corrections were made across a number of the bandings for both clinicians and other staff within the ‘Higher paid employees remuneration’ disclosure.</p> <p>Exit packages</p> <p>The disclosure was updated from nil to £0.036 million.</p> <p>Fair pay disclosures</p> <p>The 2022/23 were updated to include benefits-in-kind.</p>	Yes
Parliamentary Accountability Report – Losses and special payments	<p>The number of cases reported within special payments and losses has been amended. The disclosure has been updated to confirm that it has no material remote contingent liabilities.</p>	Yes

1. Audit Adjustments (8)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Primary financial statements	The primary financial statements included adjustments for NHS Grampian Endowment Funds and Intra Group Adjustments. This information has been removed from the primary statements and included the additional information within note 23a. The headings of the assets and liabilities which do not meet the definition of financial instruments have been classified separately within the Statement of Financial Position.	Yes
Cashflow statement	The following amendments were made to the cashflow statement: <ul style="list-style-type: none"> • Board and Group “Increase Cash and cash equivalents at the end of the year” has been updated to “Cash and cash equivalents at the end of the period;” • Board - Cash and cash equivalents at the end of the period – has been amended from £10,881k to £10,412k; • Board - Capital elements of payments in respect of leases £469k has been added; and • Group – descriptors have been corrected. 	Yes
Note 1 accounting policies	The draft set of accounts were presented included some departures and omissions from the NHS Accounts Manual in relation to property, plant and equipment, accounting standards issued but not adopted and basis for consolidation. The foreign exchange accounting policy was removed as it is not material to NHS Grampian.	Yes
Note 1.4 Going concern	Note 1.4 of the financial statements and Note 3 of the Directors Report have been amended to include disclosure regarding NHS Grampian’s forecast financial position for 2023/24 over the next five years, discussions with Scottish Government over the provision of funding cover (known as “brokerage”) and continued operational existence.	Yes
Note 1.28 Key sources of judgement, estimation and uncertainty	The note has been enhanced to disclose in respect of estimation uncertainty: <ul style="list-style-type: none"> • report the carrying value affected by material uncertainty; • explain the nature of the assumptions that give rise to material uncertainty; and • present sensitivity information to demonstrate report how a change in assumptions would give rise to a material impact. 	Yes

1. Audit Adjustments (9)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 2a and 2c - Summary of core revenue resource outturn and Consolidated movement in working capital balances (respectively)	No comparatives were included in the draft accounts presented to audit. International Accounting Standard 1 requires the disclosure of all comparative information for all primary statements and notes the accounts.	Yes
Note 2b Notes to the cash flow statement	The note presented only the Board position. The note was updated to report the both the Board and consolidated position.	Yes
Note 3 Operating expenses – External Auditor’s remuneration –statutory audit fee	A footnote was added to explain £0.245 million is payable in respect of the external audit of the financial statements <i>with a further £0.005 million not accrued.</i>	Yes
Note 4 Operating Income	<i>Income from other NHS Scotland bodies of £2.231 million misclassified within Non-NHS other income. This is a reclassification of income between lines reported in Note 4 – Operating Income - a £2.231 million increase to Income from other NHS Scotland Bodies and a corresponding decrease to Non-NHS other income.</i>	Yes
Note 5 Segmental Information	<i>A prior period adjustment was identified in Note 4 Operating segments. Operating segments amended to better reflect how information is presented to decision makers. The 2022/23 figures have been updated and the 2021/22 figures restated, with more information added.</i>	Yes
Note 7 Property, plant and equipment	The note has been updated to separately disclose the opening cost of Property, plant and Equipment including and excluding finance leases. <i>Note 7c now discloses details on impairment and revaluation movements.</i>	Yes

1. Audit Adjustments (10)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 9 Trade and other receivables	<p>The disclosure has been amended to include:</p> <ul style="list-style-type: none"> The disclosure of existing customers with no defaults in the past was updated from nil in the first draft of the financial statements to £17.815 million in the final draft. Figures regarding the year under which all long-term receivables are due was not included in initial set. Additionally, the fair value of long-term receivables was not included in first set. <p>We also identified the following which has not been adjusted for within note 9:</p> <ul style="list-style-type: none"> This note included columns for NHS Grampian Endowment Funds and Intra Group Adjustments. These adjustments have not been removed from this note. 	Partially
Note 10 Investments	<p>Disclosure of the revaluation (deficit) / surplus transferred to equity of £5.289 million was not included in the initial draft of the financial statement, which relates to the charitable endowment funds.</p>	Yes
Note 12 Trade and other Payables	<p>The disclosure has been amended to include:</p> <ul style="list-style-type: none"> The table showing the net impact of offsetting the clinical and medical negligence provision, the participation in CNORIS provision and the associated debtor had not been updated from the prior year figures in first draft of the financial statements. <p>We also identified the following which has not been adjusted for within note 12:</p> <ul style="list-style-type: none"> This note included columns for NHS Grampian Endowment Funds and Intra Group Adjustments. These adjustments have not been removed from these note. 	Partially
Note 14 Contingent liabilities and assets	<p>A prior period adjustment was identified in Note 14 Contingent liabilities and assets. Clinical and negligence claims are assessed by the Central Legal Office (CLO) and assigned a risk category. Risk category 1 claims are required to be disclosed as contingent liabilities. The 2021/22 and 2022/23 contingent liabilities were omitted from the draft accounts.</p> <p>Note 14 Contingent liabilities and assets has been amended to include this disclosure for both 2021/22 and 2022/23.</p>	Yes

2. Action plan and recommendations – Financial statements audit (1)

We have identified 13 recommendations for NHS Grampian and the group during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress on these recommendations during our 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Timeliness of draft accounts</p> <p>Initial discussions with the Health Board indicated that the draft accounts would be received on 10 May 2023, but due to changes in the central template and adequate time required for assurance processes, we received the draft accounts on 16 May 2023. This set of accounts did not include the IJB figures as they were not available until later due local authority reporting deadlines. A subsequent draft set of accounts was received on 24 May 2023.</p>	<p>Review accounts preparation timetable to ensure draft accounts deadlines are achievable. Continue to liaise with external audit regarding areas that can be started to be audited prior to the draft receipt of financial statements.</p> <p>Management response</p> <p>Preparation timetable will be reviewed in collaboration with external audit to reflect lessons learnt and options for early release of audit file data.</p>
High	<p>Valuation</p> <p>We are satisfied that there is unlikely to be a materially different value if BCIS rates were used, however we are unable to corroborate that the DV/VOA's approach. If there was an error in their data or calculations, we have been unable to have the opportunity to identify. Whilst we are satisfied the value is not materially misstated as at 31/3/2023, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations.</p>	<p>Revisit instructions valuation provided to the valuer, to ensure that access to source data used by the valuers, is made available to auditors or that the valuer uses an industry standard approach to valuing land and buildings.</p> <p>Challenge and review the valuations provided by the valuer.</p> <p>Management response</p> <p>NHS Grampian recognises this is an emerging issue and will work with our External Auditors and Others to consider these recommendations over the course of 2023/24.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

2. Action plan and recommendations – Financial statements audit (2)

Assessment	Issue and risk	Recommendations
Low	<p>Late timeline of Board</p> <p>The target date specified by Audit Scotland for submission audited accounts and the Annual Audit Report were brought forward in the 2021 Code to 30 June 2023. The Board is convening to sign the final Annual Report and Accounts on 6 July 2023. This is after the target submission date of 30 June 2023.</p>	<p>Review the date which the Board meets the date for signing the final Annual Report and Accounts in 2023/34 to meet the target submission date.</p> <p>Management response</p> <p>This was a managed amendment to timeline to align with Board business and agreement from the Scottish Government was secured 14/02/23 and communicated to relevant parties.</p>
Medium	<p>Income from other NHS Scotland Bodies</p> <p>Our testing identified £8.166 million of income from other NHS Scotland bodies misclassified within other operating expenditure (£5.935 million) and within Non-NHS other income.</p>	<p><i>Perform reconciliation between SFR 30 letters to the amounts recorded in the accounts to ensure the appropriate classification of transactions.</i></p> <p>Management response</p> <p>The reconciliation between SFR 30 letters and amounts held in accounts will be extended to include appropriate classification of transactions.</p>
Medium	<p>Timeliness of samples</p> <p>During the audit we experienced some delays receiving responses to some of our samples and queries, which increased pressure on both the finance team and audit team delivering the audit in advance of the submission date. We appreciate large size and number of samples and queries that are requested and arise during the audit.</p>	<p>Ensure processes are in place to respond timely to all audit samples and queries.</p> <p>Management response</p> <p>It is recognised that this is the first year of new audit arrangements and requirements have differed from previous years. The process of response to audit samples and queries will be reviewed and enhancements identified.</p>
High	<p>Buildings valuation – floor areas</p> <p>Our work identified differences in floor areas between floor plans held by NHS Grampian and floor areas used in the valuation of buildings. This has resulted in an error in the building valuations. An unadjusted misstatement has been identified and reported in Appendix 1.</p>	<p>Perform a review of floor plans provided to the valuer to ensure these reflect the underlying assets.</p> <p>Management response</p> <p>Agreed this will be completed in 2023/24.</p>

2. Action plan and recommendations – Financial statements audit (3)

Assessment	Issue and risk	Recommendations
<p>High</p>	<p>Journals</p> <p>Our audit work identified 386 journals that had been prepared and posted by the same officer. Testing of these journals and found no instances of management over of controls.</p> <p>We also identified Deputy Director of Finance and the Assistant Director of Finance have access rights to post journals to the financial system. We understand that they only tend to post journals on the rare occasions when the value of the journal exceeds the posting levels of other staff. Our testing confirmed that neither officer had posted journals in 2022/23.</p> <p>We do not expect senior members of the management team to have the ability to post journals as this increases the opportunity for management override of controls.</p>	<p>Embed segregation of duties procedures to ensure journal are prepared and posted by different officers.</p> <p>Review all journals:</p> <ul style="list-style-type: none"> • prepared and posted by the same officer; and • Posted by senior management. <p>Management response</p> <p>Senior management access rights will be revised to remove the ability to post journals to the financial system.</p> <p>Segregation of duties procedures will be embedded with a quarterly review of all journals posted to ensure they were prepared and posted by different officers.</p>
<p>Medium</p>	<p>POP accrual</p> <p>The POP Accrual included a material error where goods had been incorrectly receipted by a member of staff within PECOS. This was appropriately manually corrected by the management accountants by a journal. Our work also identified a similar material error in April 2023, which had also been corrected.</p> <p>The PECOS system does not have any matching controls (e.g. receipt to purchase order). Matching controls are at a later stage of the process (during payment) where eFinancials will reject orders which do not match to purchase order, receipt and invoice. This means that year-end POP accruals which are based off data from PECOS could be misstated if items have not been receipted correctly. We understand large errors would be picked up during their review of accruals / budget monitoring as evidenced in the above example.</p>	<p>Update the PECOS system to include matching controls when receipting goods into the system to increase accuracy of year-end POP accruals.</p> <p>Management response</p> <p>We will request the implementation of matching controls, noting PECOS is a national system which may restrict our ability to update controls.</p> <p>Review of accruals/budget monitoring will continue to provide assurance over POP accrual.</p>

2. Action plan and recommendations – Financial statements audit (4)

Assessment	Issue and Risk	Recommendations
Medium	<p>Debtors - Road Traffic Accidents (RTA)</p> <p>RTA outstanding debt spreadsheet listing is manually prepared by NHS Grampian. This spreadsheet is used to determine the year end debtor and associated provision for inclusion in the accounts.</p> <p>A full list of outstanding debtor balances cannot be obtained from the NHS Injury Costs Recovery (ICR) website.</p> <p>There is a risk that the that the information within the spreadsheet is incomplete and not accurate, which is used to calculate the RTA outstanding debt accrual.</p>	<p>Take screenshots of the ICR website whilst updating the RTA outstanding debt spreadsheet listing to create an audit log.</p> <p>Management response</p> <p>The process for maintaining a record of RTA outstanding debt is to be reviewed to ensure the accuracy of the debtor, including a full audit of current debtor balances. Evidence will be retained to support the debtor.</p>
Low	<p>SFR 30 letters</p> <p>We identified that the SFR 30 letter that NSS issued NHS Grampian was signed and returned despite the trading figures being in excess of the £0.2million threshold. The £0.2million threshold applies to both the outstanding balances and the trading figures. Our audit work confirmed that there is an appropriate reason for the variance on the letter.</p>	<p>Ensure the £0.2 million threshold for SFR 30 letters is applied both to the outstanding balances and trading figures.</p> <p>Management response</p> <p>Agreed procedures will be updated to consider both outstanding and trading figures.</p>

2. Action plan and recommendations – Financial statements audit (5)

Assessment	Issue and risk	Recommendations
High	<p>Nil net book value assets</p> <p>The Board’s draft asset register included £64.388million of assets (plant and equipment) with a nil net book value and are fully depreciated in the asset register. There are two risks in relation to this issue:</p> <ul style="list-style-type: none"> • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and • if these assets are operational, there is a risk that the Board is not assigning appropriate asset lives to its plant and equipment assets. <p>The potential impact of these risks is that the gross cost and accumulated depreciation disclosed within Note 7a Property, plant and equipment is overstated. There is no impact on the primary financial statements , which comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, and the Consolidated Statement of Cash Flows and the Consolidated Statement Changes in Equity.</p>	<p>Perform a detailed review of their Useful Economic Lives policy and updated where appropriate.</p> <p>Embed a formal process for reviewing assets which have outlived their Useful Economic Lives on an annual basis, to ensure the assets are still in existence.</p> <p>Management response</p> <p>A review of useful economic lives will be considered during 2023/24 for certain categories of assets, taking into account guidance in the capital accounting manual. Enhancement to the annual asset verification process and scope will be introduced to ensure comprehensive response. A procedure to be developed to assess treatment of fully depreciated assets.</p>
Low	<p>NFI</p> <p>The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. Over 5,500 matches have been identified. This represents a significant resource commitment, as matches are required to be investigated by 30 September 2023 and the results recorded on the NFI system.</p>	<p>Report NFI progress updates the Audit and Risk Committee.</p> <p>Consider completing the self-appraisal checklist referred to in the 2021 NFI Report.</p> <p>Management response</p> <p>NFI feature in Audit and Risk Committee updates on fraud. Self-appraisal checklist to be completed as part of ongoing work in the 2022/23 matching exercise.</p>

2. Action plan and recommendations – Financial statements audit (6)

Assessment	Issue and risk	Recommendations
High	<p>Cyber security</p> <p>Internal audit undertook a review of NHS Grampian’s review on Ransomware which resulted in four high risk findings and a critical rated report.</p> <p>There is a significant risk of cyber-attacks to public bodies. It is essential appropriate cyber security arrangements are in place. Incidents can have a significant impact on both the finances and operation of an organisation.</p>	<p>Implement the recommendations from this report as soon as possible with appropriate monitoring arrangements put in place.</p> <p>Management response</p> <p>This is monitored by The Audit and Risk Committee with an early update scheduled for September 2023.</p>

3. Action plan and recommendations – Wider scope and Best Value (1)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response
<p>Financial Sustainability</p> <p>NHS Grampian has a forecast overspend for 2023/24 and outlines concerns over the future financial sustainability of the health board where additional funding is not provided.</p> <p>Recommendation</p> <p>Closely monitor the financial position and savings programme to ensure any slippage in the budget is quickly responded to and further possible savings that can be identified.</p>	<p>Management response:</p> <p>Financial performance is reported monthly basis to Scottish Government, Board Members and senior budget managers. Reports will highlight any deviation from the financial plan together with options for corrective action that can be taken.</p>
<p>Financial Sustainability</p> <p>NHS Grampian has high supplementary staffing costs and staff turnover. A Workforce Action Plan has been implemented for tracking progress.</p> <p>Recommendation</p> <p>Continue to monitor progress made against action plans and workforce plans to ensure there is a depth of pace to improving performance in this area.</p>	<p>Management response:</p> <p>Progress against the Workforce Action Plan is reported on a quarterly basis to the Sustainable Workforce Oversight Group, chaired by the Director of People & Culture.</p>
<p>Financial sustainability - Baird and ANCHOR Centre</p> <p>Specific project reports have been received by the Board and PAFIC as required, rather than on a periodic basis throughout the project.</p> <p>Recommendation</p> <p>Embed regular reporting for the Baird and ANCHOR of project risks, revenue and capital costs, project progress to appropriate committee and the Board to provide assurance and ensure oversight, scrutiny and transparency.</p>	<p>Management response:</p> <p>As the assurance Committee responsible for Infrastructure, PAFIC now receive an update from Baird and ANCHOR each cycle. Onward reporting to the Board as required is considered appropriate.</p>

3. Action plan and recommendations – Wider scope and Best Value (2)

Recommendation

Financial sustainability – Baird and ANCHOR Centre

Forecast revenue costs for the project have remain unchanged since the approval of the FBC. Given the level of inflation 2018, there is a risk that these costs will have increased.

Recommendation

Ensure forecasts for the Baird and ACHOR Centre remain accurate through regular review of all capital and revenues components of the project.

Agreed management response

Management response:

Estimated running costs for the Anchor Centre have recently been refreshed and built into our financial plan for 2023/24. Estimated running costs for the Baird Hospital will be refreshed as part of our revenue budget setting process for 2024/25.

Financial management

Standing Financial Instructions and Standards Orders do not include planned dates for review and change logs.

Recommendation:

Ensure all key governance and financial documents include planned review dates and change / version logs.

Management response:

Current review underway to refresh of Standing Financial Instructions and Standard Orders it includes version logs and planned review dates.

Financial management

Given the challenging financial position for NHS Grampian over the next five years, to allow appropriate oversight, challenge and scrutiny of NHS Grampian's financial position by the PAFIC and Board detailed and regular financial reporting should be provided.

Recommendation:

Ensure regular financial reporting to PAFIC and the Board.

Review the format of financial reports provided to committee and Board to provide a high-level summary supported by more detailed information and clear explanations for significant variances.

Management response:

A Finance Report is a standing agenda item for PAFIC. The Board is also now receiving regular updates on NHS Grampian's financial position.

Board members are also circulated with the monthly detailed Finance Report for their information.

PAFIC is an assurance oversight committee for the Board. We will consult with PAFIC members regarding the format and level of detail that they wish to receive in the financial reports presented to them.

1. Audit Adjustments (3)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 16 Leases	A reconciliation has been added to show the closing balance for leases under IAS 17 at the end of 2021/22, as shown in Note 17 Prior year leases and the opening right of use asset valuation in Note 16 Leases under IFRS 16. Depreciation provided in year of £0.388 million misclassified within buildings depreciation provided during the year.	Yes
Note 18 HUB Schemes	This disclosure has been updated to include the following information about the six different HUB schemes, as required by the NHS Accounts Manual: name of the contract, description of the arrangement, contract period, significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows.	Yes
Note 20 Financial instruments	The disclosure has been amended to include: <ul style="list-style-type: none"> • Investments within financial assets disclosed. • Presentational and formatting changes. • Disclosure of the fair value of financial assets and financial liabilities compared to the carry valuing has been added, <i>including reference to the valuation technique and assumptions used.</i> <p><i>We also identified the following which has not been adjusted for within note 20:</i></p> <ul style="list-style-type: none"> • <i>The Board's annual leave accrual and amounts payable to the general fund should be removed from financial liabilities disclosed. These liabilities do not meet the definition of a financial instrument.</i> • <i>Quantitative and qualitative disclosures in relation to risk has been partially enhanced.</i> • Adjustments for NHS Grampian Endowment Funds and Intra Group Adjustments have not been removed. 	Partially
Note 21 Related party transactions	No disclosure was made to include other bodies falling under the Scottish Government umbrella. Our work also identified a related party transaction with Chest, Heart and Stroke Scotland that NHS Grampian should disclose within their related parties note.	Yes
Note 22 Events after the reporting period	A note for disclosing events after the reporting period has been added to the accounts. This note discloses an event after the reporting period for junior doctor pay award dispute. An unadjusted misstatement has also been included within Appendix 1 for the junior doctors pay issue.	Yes

3. Action plan and recommendations – Wider scope and Best Value (4)

Recommendation

Financial Management

NHS Grampian has a challenging 3% savings target for 2022/23. Any slippage in delivery the savings target for 2023/24 will result in an increased deficit position.

Recommendation:

Regular reporting of delivery of savings to committee is important to ensure appropriate oversight, scrutiny and challenge.

Vision, leadership and governance

NHS Grampian plans to reinstate reminders members of available learning resources, including updates from the Standards Commission and to keep their declaration of interests up to date.

Recommendation:

Embed formal reminder procedures to members including their responsibilities to keep their declaration of interests up to date and informing them of available learning resources, including updates from the Standards Commission.

Vision, leadership and governance

There are internal audit recommendations which have not been implemented. These are reported regularly to the ARC. It is important that these recommendations are implemented as appropriate, with continued regular monitoring and reporting to the ARC. We note that there is no process to report implementing external audit recommendation to the ARC.

Recommendation

Embed a process for also monitoring and reporting the progress implementing external audit recommendations, with appropriate oversight from the ARC.

Agreed management response

Management response:

Agreed. Delivery of savings against plan is reported to each meeting of PAFIC.

Management response:

Reminders will be issued every 6 months to Board members to ensure declarations of interest are kept up to date. These will include links to available learning resources. Updates from Standards Commission will be issued when available. A report will be presented annually to the Board on the Register of interests.

Management response:

Agreed, each of these action are addressed in the Audit and Risk Committee's Annual Plan considered on the 27 June 2023.

3. Action plan and recommendations – Wider scope and Best Value (5)

Recommendation

Vision, leadership and governance

In March 2023, the internal auditors of Aberdeenshire IJB raised concerns in relation to governance arrangements (limited assurance report with major risk ratings) and transformation projects (limited assurance report). We are also aware that internal auditors have raised some issues in relation to governance arrangements at Moray IJB, including delays implementing outstanding internal audit recommendations.

Recommendation:

Review and embed arrangements for improving assurances provided from the Board's partners, including IJBs.

Agreed management response

Management response:

Agreed, arrangements are in place for regular updates to the Audit and Risk Committee from each IJB.

4. Follow up of prior year recommendations (1)

We have set out below, our follow up of the recommendations made by the predecessor auditor last year and management's progress in implementation:

Recommendations from financial statements audit

Recommendation

Purchase order processing (POP) accrual

Approximately £5.4 million of the POP accrual at 31 March 2022 remained outstanding on the system at 30 June 2022. Given the high volume of low value items involved, it was not easily possible to verify the validity of the orders. Due to the time that has passed, it has been assumed the orders are no longer valid and should be cancelled from the system. We therefore concluded that expenditure and accruals were overstated by £5.4 million.

Recommendation

Outstanding orders should be regularly reviewed to ensure they are followed up with services and concluded as appropriate in a timely manner.

Agreed officer response

A full review of outstanding orders was undertaken at 31 July 2022 which reduced the POP accrual from £15.4m at 31st July 2022 to £11.9m at 31st August 2022.

An automated routine to delete all outstanding orders over 4 months has not yet been introduced in light of invoicing delays experienced during the 2022/23 financial year. Once we have assurance that all invoicing activity is up to date the automated routine to delete outstanding orders will be introduced.

Recommendation is superseded by the recommendation raised on page 78.

4. Follow up of prior year recommendations (2)

Recommendations from financial statements audit

Recommendation

Untaken leave accrual

Overall, an improved methodology was implemented to support the annual leave accrual. While not material, a number of issues arose in the audit verification of the accrual which would merit some further refinement of the process.

As a result of Covid-19, the calculation includes a significant accrual carried forward from 2020/21. This will reduce as time passes and staff use their leave. The opening accrual however was not adjusted to remove carried forward balances in respect of staff who left in the 2021/22 who were on the payroll in March 2021.

In addition, there were a high number of errors in the audit sample. While we acknowledge that leave requests and changes will regularly be being made to the system, changes in leave entitlement should be much less frequent. This year may have been unique as the new eESS system which was used for the calculation was only implemented in October 2021. The system is therefore probably still bedding in.

Recommendation

We would suggest that the findings from the audit sample are considered further and steps taken to improve the calculation next year.

Agreed officer response

Close working has taken place between Finance staff and the Workforce Information Team to improve the robustness of information on which the Untaken Annual Leave accrual for 2022/23 is based. This is focussed on making sure that figures for leave taken (recorded on the SSTS Payroll System) and leave entitlement (recorded on the eEES HR system) are accurate.

In addition, clear guidance has been issued to managers and staff on the expectation that untaken annual leave levels will be managed at the year end and that carry forward of annual leave should only be authorised in certain circumstances (e.g. exceptional service pressures, maternity leave, long term sick leave).

The Untaken Annual Leave accrual for 2022/23 has now been quantified with full supporting documents provided to External Audit for their review of the accrual.

Recommendation is closed.

4. Follow up of prior year recommendations (3)

Recommendations from wider scope and best value audit

Recommendation

Longer term financial planning

Responding to the pandemic has resulted in significant additional expenditure but break-even has been achieved through additional funding provided by the Scottish Government to support the response to Covid-19.

Financial plans have been focused on the short term. With uncertainty around funding and a significant financial shortfall, it will be difficult for the board to deliver remobilisation plans and the recently approved strategic aims in its 'Plan for Life'.

Recommendation

Develop a robust medium term financial plan with stakeholders and partners. This should be aligned with the board's workforce and transformation plans and include a range of different scenarios to reflect the uncertain environment to assist future decision making.

Performance

The Board is facing significant operational challenges as it takes steps to revert to 'business as usual' activities, begins to tackle waiting list backlogs and aims to improve patient treatment times. Board activity was adversely affected by the Covid-19 disruption and managing the impact will continue to be a major challenge for the board in the years ahead.

Recommendation

Performance reporting arrangements should be kept under review to ensure there is transparent reporting and regular scrutiny of the measures being taken to address backlogs.

Agreed officer response

NHS Grampian's MTFF was refreshed in early 2023 to reflect the latest information and trends. The MTFF outlines the Board's projected financial position over the next five years. The MTFF was presented and agreed by the Board in April 2023.

This recommendation is superseded by the recommendations included on page 82.

Performance against key indicators is reported on a weekly basis to the Chief Executive Team and the Whole Systems Decision Making Team who agree changes to operational arrangements to deal with performance issues on the basis of the data provided. A detailed Performance Report is also provided to the Performance Assurance, Finance & Infrastructure Committee (PAFIC) which is a formal sub-committee of the Board. A "How Are We Doing Performance Report" was also presented to the NHS Grampian Board on 1st June 2023.

Recommendation is closed.

4. Follow up of prior year recommendations (4)

Recommendations from wider scope and best value audit

Recommendation

Finance capacity

With changing roles, a loss of senior experience and ongoing competing demands, the finance team have been experiencing capacity pressures but are taking prompt action to recruit into vacant posts.

Recommendation

The finance function should be reviewed to ensure there is sufficient capacity to meet ongoing pressures. This should include further succession planning and building in sufficient management review and support, especially for staff in new roles, to assist them to operate effectively.

Agreed officer response

Successful appointments have been made to the Director of Finance post and the Assistant Director of Finance post with both posts being filled by very experienced and well qualified candidates. Appointments have also been made to the Finance Manager post supporting Infrastructure projects and Financial Governance Manager. We are also in the process of recruiting to a Systems Manager post.

We are aware that we are likely to lose a number of other experienced staff in the short to medium term. Development of plans for succession planning is regularly reviewed by the Senior Finance Team.

Recommendation is closed.

5. Audit fees, ethics and independence (1)

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Board's Ethical Standard and confirm that we, as a firm, and each covered person, 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 requirement of the Financial Reporting Board's Ethical Standard.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the NHS Grampian that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place, note that there are no non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

5. Audit fees, ethics and independence (2)

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to NHS Grampian. The table summarises all non-audit services which were identified.

The final audit fee includes additional audit fee of £5,250, which has been agreed with the Director of Finance. This is relation to additional work during the audit in relation to land and buildings valuation above the usual level of work required in this area.

External Audit Fee

Service	Planned Fees £	Final Fees £
External Auditor Remuneration	£204,320	£209,570
Pooled Costs	£18,490	£18,490
Contribution to Audit Scotland support costs	£7,990	£7,990
Sectoral cap adjustment	£14,310	£14,310
2022/23 Audit Fee	£245,110	£250,360

Fees for other services

Service	Fees £
We confirm that for 2022/23 we did not receive any fees for non-audit services	Nil

5. Audit fees, ethics and independence (3)

The fees reconcile to the financial statements (round £000 in the financial statements).

- Fees per financial statements £245
- Additional audit fee £5
- Total fees per previous page £250

Disclosure has been added in the footnote to the financial statements to note that £5,250 audit fees have not been accrued.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, 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 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

6. Communication of audit matters

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

Our communication plan	Audit Plan	Annual Report (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	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of NHS Grampian'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.		•

