

# External Audit Plan

## NHS Grampian

Financial year ending 31 March 2024

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

29 February 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 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.

# Introduction

## Purpose

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

We are appointed by the Auditor General as the external auditors of NHS Grampian for the five-year period 2022/23 to 2026/27.

## Respective responsibilities

The Code of Audit Practice ('the Code') summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the NHS Grampian are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on NHS Grampian's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee). Our audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on gaining a thorough understanding of NHS Grampian and is risk based.



# Plan overview (1)

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

## 01 Materiality

We have determined our planning materiality using prior year gross expenditure less IJB contributions as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- We have determined planning materiality to be £28.856 million (Group) and £27.452 million (NHS Grampian). This equates to 1.68% (Group) and 1.6% (NHS Grampian) of the Group and NHS Grampian's prior year gross operating expenditure.
- Performance materiality has been determined as £20.199 million (Group) and £19.216 million (NHS Grampian) and is based on 70% of planning materiality.
- We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Trivial has been determined as £1.442 million (Group) and £1.372 million (NHS Grampian).
- We have not identified any other areas of the financial statements where a reduced materiality is required.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

## 02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in expenditure recognition – non payroll expenditure (completeness) (PN10);
- Valuation of land and buildings (valuation); and
- Risk of fraud in income recognition (ISA (UK) 240) (this risk has been considered and rebutted)

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Annual Audit (ISA 260) Report.

## 03 Wider Scope Audit

In accordance with the Code, our planning considers the Wider Scope and Best Value areas of audit.

We have identified the following wider scope significant risks and will conclude on these during the audit:

- Financial management – No significant risks identified.
- Financial sustainability – There is a risk that transformation and savings plans to address financial pressures in the medium to longer term are not sufficient to address future funding gaps and increasing deficits.
- Vision, Leadership and Governance - No significant risks identified.
- Use of Resources to Improve Outcomes – We identify a significant risk relating to the delivery and subsequent overrun costs relating to the Baird and Anchor facilities which could impact on operational delivery as well as delivery of planned benefits.

More information relating to the risks identified in relation to wider scope can be found on page 16 of this report.

# Plan overview (2)

## 04 Other audit matters

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

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets such as the information return for the National Fraud Initiative (NFI) process.
- Consideration of going concern in accordance with Practice Note 10.

## 05 Our Audit Fee

Audit fees were shared by Audit Scotland with the Chief Executive and Director of Finance in January 2024. The baseline audit fee set is £265,920. This fee includes:

- External Audit Remuneration £216,580;
- Pooled costs £26,180; and
- Sectoral cap adjustment £17,160.

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

The baseline audit fee has been agreed with the audited body. An additional fee of £6,000 is currently under discussion with the Director of Finance due to the additional work required on journals as well as the detailed follow up needed of prior year issues.

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

## 06 Adding Value Through the Audit

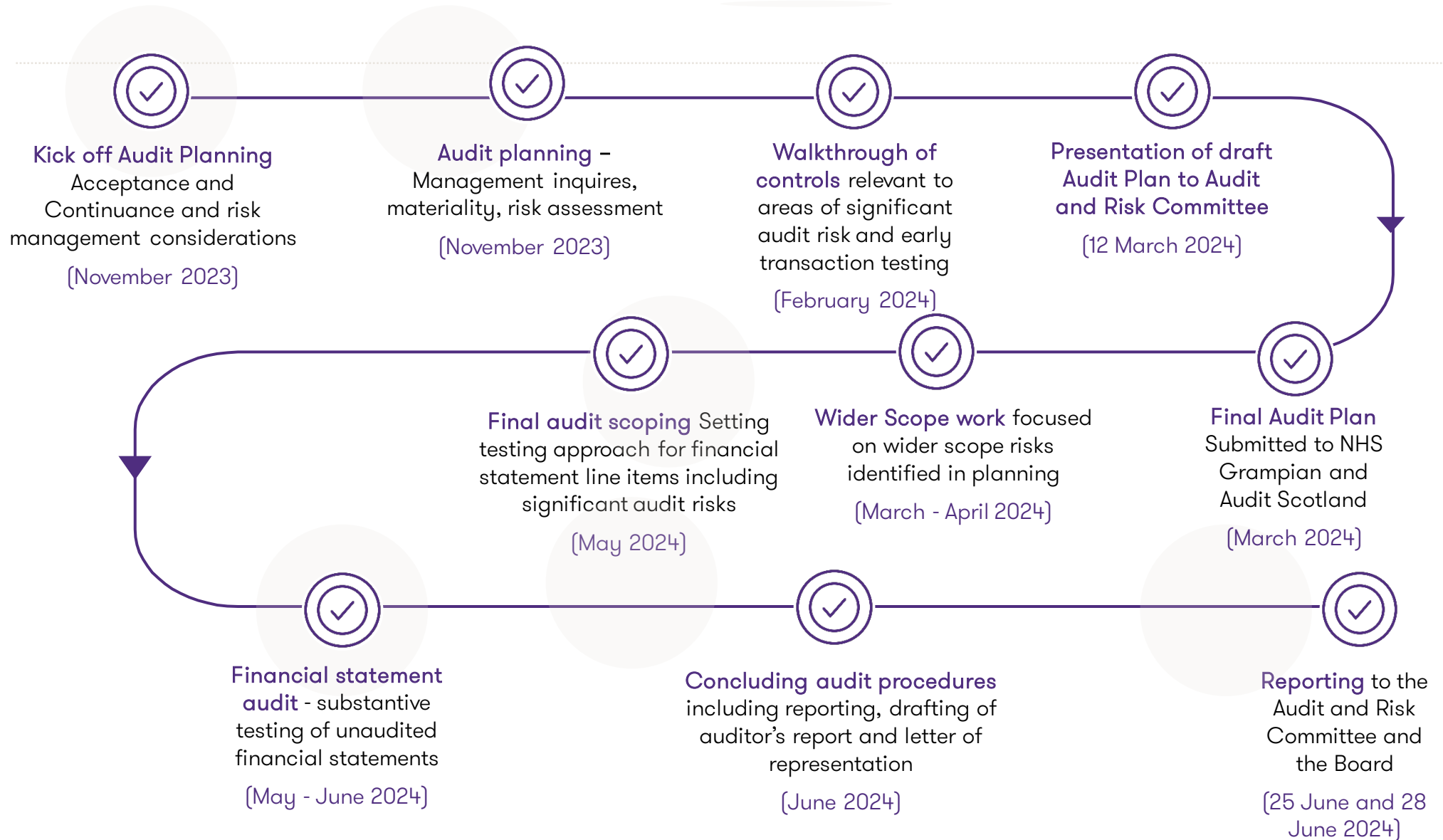
Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

We aim to add value to NHS Grampian through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help NHS Grampian promote improved standards of governance, better management and decision making and more effective use of resources.

We have also invited members of your financial reporting team to our annual NHS Chief Accountants workshop, which is led by our internal financial reporting technical team.

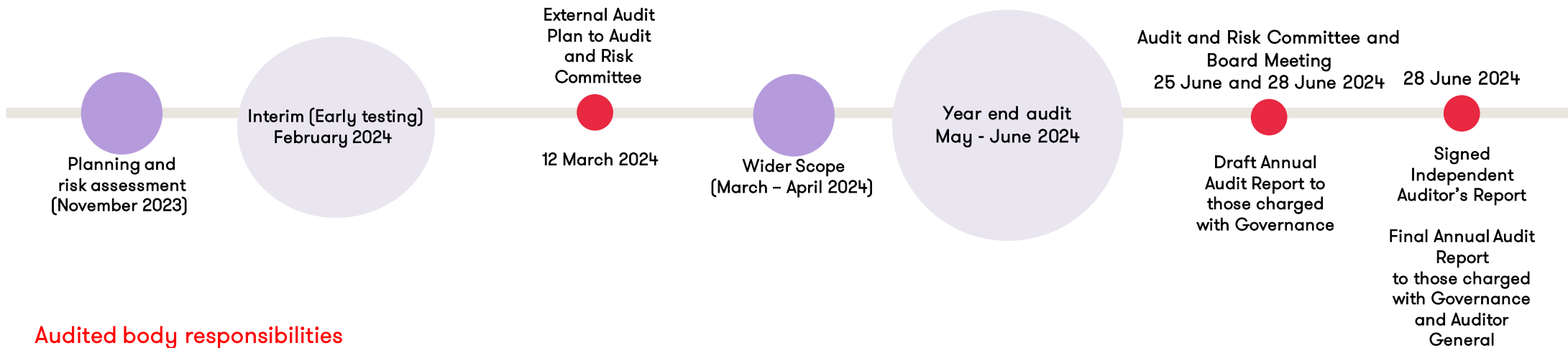
We also look to bring forward audit testing where possible by performing an interim audit which is planned to be delivered in February 2024. Early testing will cover property, plant and equipment opening balances, expenditure and payroll for the first nine months of the financial year. This will help provide a smooth and efficient audit process to support delivery for the year end audit.

# Audit approach



# Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 June 2024. We have set out below our planned timescales for the NHS Grampian audit.



## Audited body responsibilities

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

## Our requirements

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

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us;
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit;
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements;
- ensure that all appropriate staff, including NHS Grampian's external valuers, are available to us for queries over the planned period of the audit, or as otherwise agreed; and
- respond promptly and appropriately to all audit queries, within agreed timescales.

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross operating costs of the Group and NHS Grampian for the financial year. Materiality at the planning stage of our audit is £28.856 million for the Group (Prior Year £22.54 million) and £27.452 million for NHS Grampian (Prior Year £22.48 million), which equates to approximately 1.68% for the Group (Prior Year 1.3%) and 1.6% for NHS Grampian (Prior Year 1.3%) of your 2022/23 gross operating costs less IJB contributions of the Group and NHS Grampian.

Performance materiality for the year ended 31 March 2024 has been set at £20.199 million for the Group (Prior Year £13.524 million) and £19.216 million for NHS Grampian (Prior Year £13.493 million) and is based on 70% of planning materiality (Prior Year 60%).

We have not identified any other areas of the financial statements where a reduced materiality is required.

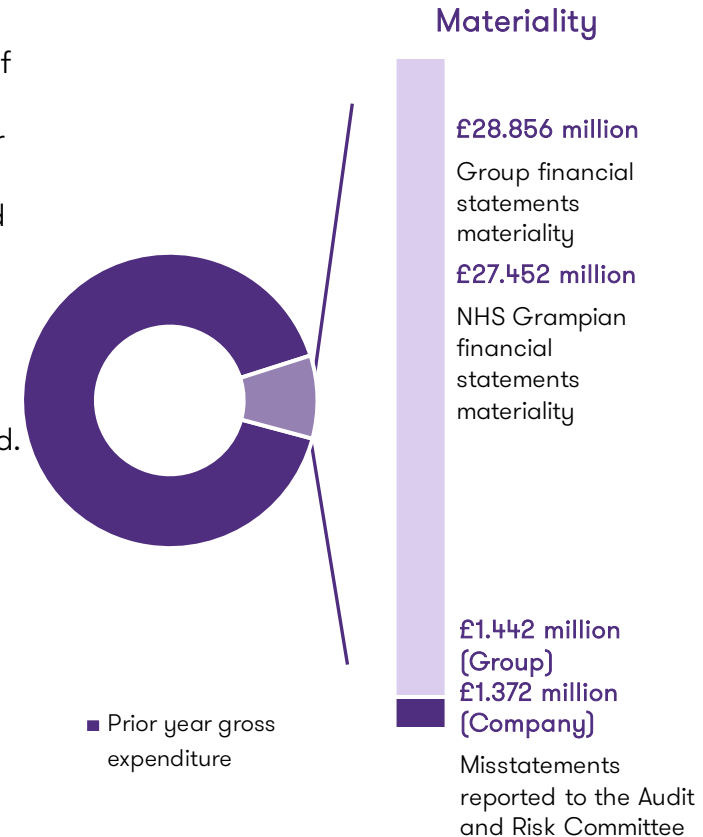
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have determined 'clearly trivial' as £1.442 million for the Group (Prior Year £250,000) and £1.372 million for NHS Grampian (Prior Year £250,000). This is determined as 5% of materiality. Please note the previous Audit Scotland triviality cap of £250,000 has been removed for 2023/24 financial year and it is now set by the individual auditor to determine the level of triviality.

Prior year gross expenditure less IJB contributions

2022/23: £1,717.644 million (Group)  
£1,715.752 million (NHS Grampian)





# Group audit scope and risk assessment

In accordance with ISA (UK) 600 (Revised November 2019) ‘Audits of Group Financial Statements (including the Work of Component Auditors)’, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements present a true and fair view and have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

The NHS Grampian group consists of the following bodies:

## Subsidiary

- Grampian Health Board Endowment Funds

## Associates

- Aberdeen City Integration Joint Board
- Aberdeenshire Integration Joint Board
- Moray Integration Joint Board.

There were no key changes in the group in 2023/24 from 2022/23.

We consider NHS Grampian as the only component to be “individually financially significant” to the NHS Grampian group, and the Endowment Funds to be “not significant but material”. We will therefore carry out a full scope audit of NHS Grampian, using NHS Grampian materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by the Endowment Funds. Analytical procedures will be performed using group materiality on all other consolidated balances, including those in relation to the three Integration Joint Boards (IJBs).

We are the external auditor for Aberdeenshire Integration Joint Board and Moray Integration Joint Board. However, we are not the external auditor of Aberdeen City Integration Joint Board.

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

# Significant audit risks (1)

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	Group and NHS Grampian	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the NHS Grampian and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being funding from the Scottish Government</li> <li>• income from services commissioned from the IJB and other Scottish Boards is well-forecasted and agreed to in funding letters/inter-Board funding agreements, reducing the opportunity for manipulation</li> <li>• there is a low opportunity to manipulate other income since it non complex and there are sufficient controls in place to prevent and detect fraud from other income streams, we therefore believe that the risk of material fraud is low.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for NHS Grampian and the Group.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." [ISA (UK) 315]

# Significant audit risks (2)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	Group and NHS Grampian	<p>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.</p> <p>Under ISA 240 the risk relating to management override of controls is a significant risk that is prevalent in all entities and therefore is recognised as a significant risk to our audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Document our understanding of and evaluate the design effectiveness of management's key controls over journals;</li> <li>• Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;</li> <li>• Test the high risk journals we have identified;</li> <li>• Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;</li> <li>• Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant audit risks (3)

Risk	Risk Relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	NHS Grampian	<p>In accordance with the HM Treasury Financial Reporting Manual (FRM), subsequent to initial recognition, NHS Grampian is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend 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 appoint the Valuation Office Agency (District Valuer) to undertake a valuations across their asset base, valuing land and buildings on an annual basis. As at 31 March 2023, NHS Grampian held property, plant and equipment (PPE) of £730.8 million including land and buildings of £504 million. Given the significant value of the land and buildings held by NHS Grampian and the level of complexity and judgement involved in the 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 fair value and therefore less likely to be materially misstated. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to prior year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will also focus our work on assets that have not been revalued to ensure the carrying value of assets is not materially different to the current value at the year-end date. We therefore consider this to be a significant risk to our audit and a key audit matter.</p>	<p>Our testing will include:</p> <ul style="list-style-type: none"> <li>• Evaluating management’s processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;</li> <li>• Engaging our own valuations expert, where necessary, to assess any judgemental assumptions used that underpin the final valuations;</li> <li>• Evaluating the valuer’s report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable;</li> <li>• Challenging the key data and assumptions used by management’s experts in the valuation process for these assets;</li> <li>• Testing a selection of other asset revaluations made during the year to ensure they have been input accurately into the entity's asset register, and the revaluations have been correctly reflected in the financial statements;</li> <li>• Evaluating 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; and</li> <li>• Reviewing your impairment assessment as to whether there are indicators of impairment for key components of Assets Under Construction (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 <u>Accounts Manual and International Accounting Standard 36</u>.</li> </ul>

# Significant audit risks (4)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)</b></p>	<p>NHS Grampian</p>	<p>Due to the presumption that there are risks of fraud in expenditure recognition, we are required to evaluate which types of expenditure, expenditure transactions or assertions give rise to such risks. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition".</p> <p>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.</p> <p>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 will include a specific focus on year end cut-off arrangements, including consideration of the existence of accruals and provisions, in relation to non payroll/non finance expenditure.</p> <p>We therefore consider this to be a significant risk to our audit however do not consider this to be a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation effectiveness of the accounts payable system.</li> <li>• Evaluate the design and implementation effectiveness of your system for recording accruals.</li> <li>• Verify that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger.</li> <li>• Search for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end.</li> <li>• Search for unrecorded liabilities by reviewing cash payments post period end.</li> </ul>

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in June 2024.

# Other matters (1)

## Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared.
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM.
- We issue a separate "consistency with" opinion on your summarisation schedules which confirm whether the schedules are consistent with the audited financial statements.
- We will report on our follow up of prior year audit recommendations within our annual audit report.
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
  - Supporting Audit Scotland in Section 22 reporting
  - Providing regular updates to Audit Scotland to share awareness of current issues
  - Notifying Audit Scotland of any cases of money laundering or fraud
  - Review of NHS Technical guidance prior to issue by Audit Scotland.

## Going concern assessment

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

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

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

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern.

PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

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

# Other matters (2)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

## Interim Testing

We also look to bring forward audit testing where possible by performing an interim audit which is planned to be delivered in February 2024. Early testing will cover property, plant and equipment opening balances, expenditure and payroll testing for the first nine months of the financial year. We will also look at the valuation process for valuing your land and building assets and bringing forward any review of management judgements in this area in advance of our year end audit. This will help provide a smooth and efficient audit process to support delivery for the year end audit.

## Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over:
  - Journal entries and other key entity level controls
  - The completeness and accuracy of information provided to your external valuer to perform the valuation of land and buildings assets
  - The review of valuation outputs including key assumptions made by the valuer and significant movements in revalued assets
  - The completeness of accruals and liabilities recorded within the general ledger

Our focus is on design and implementation of controls only. We do not intend to assess or place any reliance on the operating effectiveness of your controls during our audit.

## Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2023/24 central government audits is the implementation of IFRS 16 extends to PFI liabilities from 1 April 2023.

# Wider scope risks identified in planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas.

2021 Code of Audit Practice Audit Dimensions	Meaning
Financial Sustainability	Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Vision, Leadership and Governance	Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
Use of Resources to Improve Outcomes	Bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. For NHS bodies we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider-scope audit work.

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability and one significant risk in relation to Use of Resources. We have not identified significant risks in relation to Financial Management and Vision, Leadership and Governance from our initial planning and risk assessment work. We will continue to review your arrangements before we issue our Annual Audit Report.



# Wider scope risks identified in planning (2)

## Financial sustainability

NHS Grampian submitted a financial plan to Scottish Government for the 2023/24 financial year in March 2023. An initial budget gap of £60.6 million was projected after reflecting 3% recurring efficiency savings instructed by the Scottish Government of £16.5 million. Since the start of the year the Scottish Government has allocated extra funding to Health Boards which has reduced the projected budget gap to £24.9 million. The size of the overspend being incurred in the current financial year means that NHS Grampian will enter the 2024/25 financial year with a significant underlying financial deficit. A number of financial risks were highlighted as part of the budget approval process, some of which have materialised in the first half of the financial year causing significant pressure on the 2023/24 revenue position.

Central Government budget pressures provides a risk that future financial funding settlements do not meet the requirements for the running of the NHS Health Board. NHS Grampian have identified significant funding gaps for the medium to longer term. This is compounded by an uncertain financial climate where inflation is increasing at record rates and the cost of living crises is pushing up costs for all areas of the economy.

Consecutive one-year funding settlements create challenges in the health board's ability to plan for the medium to longer term and has weakened one of the key anchor points for strategic planning for the organisation. The Health Board faces significant challenges in dealing with future funding gaps where funding is not matched by the Scottish Government. In order to achieve financial sustainability and bridge funding gaps, the Health Board will need to identify and deliver significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and strategic priorities.

### Significant risk identified:

**There is a risk that transformation and savings plans to address financial pressures for medium to longer term are not sufficient to address future funding gaps and increasing deficits.**

### Response to significant risk:

We will seek to understand the future financial forecasts and plans for NHS Grampian for 2024/25 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of funding shortfalls. We will also consider the action NHS Grampian is taking to address identified funding gaps and associated savings plans. Our work will also include following-up on the prior year recommendations in respect of the financial sustainability risk highlighted last year.

# Wider scope risks identified in planning (3)

## Financial management

NHS Grampian has processes in place which detail the responsibilities of Performance Assurance, Finance and Infrastructure Committee (PAFIC) members and senior management for planning and managing the Health Board's finances. These are set out in NHS Grampians Board Assurance Framework. NHS Grampian identifies future cost pressures as part of its initial budget setting process, which involves meetings between budget holders and members of the finance team, on an ongoing basis throughout the year, usually through budget monitoring meetings.

We have not identified a significant risk in relation to the NHS Grampian's arrangements for financial management from our initial planning work. We will seek to understand the effectiveness of the NHS Grampian's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by NHS Grampian during 2023/24 and we will seek to understand the future financial implications of this.

## Vision, Leadership and Governance

There have been a number of changes to the senior leadership team at NHS Grampian during the 2023/24 financial year including the appointment of a new interim Chief Executive Officer who was previously the Deputy Chief Executive Officer. There has also been the appointment of a new Chair of the Audit and Risk Committee who was previously an existing member of the Audit and Risk Committee.

We have not identified a risk in relation NHS Grampian's arrangements for vision, leadership and governance from our initial planning work however, we will continue to review your arrangements before we issue our Annual Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

# Wider scope risks identified in planning (4)

## Use of Resources to Improve Outcomes

The Baird Family Hospital and The ANCHOR Centre Project is a £261.1 million building development at the Foresterhill Health Campus in Aberdeen. Both the Baird Family Hospital – which will provide maternity and neonatal care as well as breast and gynaecology services – and the Anchor Centre were originally due to open in 2020. A Healthcare Acquired Infection (HAI) focused design review was initiated to reflect recent learning. This resulted in further delays and projected budget overspends for the project. A design review of the buildings highlighted potential issues that had to be addressed before the sites could go live and be opened. NHS Grampian are currently working through revised timescales for the opening of these facilities

The previous updates received by the Board highlighted two significant areas of risk:

- 1) The potential impact on programme and cost arising from the requirement to revisit elements of the design for both buildings to ensure that up to date learning on Healthcare Acquired Infection (HAI) is incorporated and that both buildings will be operated to high standards of quality and safety. Key areas of focus include the design of water systems and ventilation.
- 2) Several areas of potential cost pressure remain commercially under negotiation with the contractor. These issues are driven mainly by challenges in relation to market forces i.e. material shortages, price increases and labour shortages, as well as anticipated costs associated with known design changes such as the environmental matrix.

The Board were also informed that a potential opening date for either facility is uncertain until the outcome of the ongoing design review is known, including an assessment of the feasibility, cost and programme impact of any required changes.

### Significant risk identified:

**We identify a significant risk relating to the delivery and subsequent overrun costs relating to the Baird and Anchor facilities which could impact on operational delivery as well as delivery of planned benefits.**

In response to this significant risk we will:

- Review your arrangements in place to monitor and track delivery of the Baird and ANCHOR capital projects
- Review your arrangements in place to ensure supplier engagement is operating effectively
- Review your arrangements in place to revisit and update planning assumptions and business cases relating to Baird and Anchor capital projects
- We will also seek to understand any inflationary costs for the Baird Family Hospital and Anchor Centre project, including the project funding position.

# Wider scope risks identified in planning (5)

## Best Value

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors are required to confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work is determined by the annual risk assessment carried out as part of our wider scope work.

We will review the arrangements NHS Grampian has put in place to ensure it complies with the requirements to ensure that arrangements have been made to secure Best Value. This work will be carried out in conjunction with our work on the four wider scope themes.

We will report on the arrangements in place to secure Best Value within our Annual Audit Report.

# Audit Fees

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

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

Audit fees were shared by Audit Scotland with the Director of Finance in January 2024. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## Fee Assumptions

In setting the below fees, it is assumed that NHS Grampian will:

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

## Audit fees for 2023/24

Service	Fees £
External Auditor Remuneration (agreed)	£216,580
Additional audit fee (under discussion)	£6,000*
Audit Scotland Pooled Costs	£26,180
Sectoral cap adjustment	£17,160
<b>2023/24 Proposed Fee</b>	<b>£265,920</b>

\*Increase to base fee of £6,000 includes costs to cover work due to a higher-risk control environment relating to journals. In addition, there are a large volume of prior year financial and disclosure amendments to check as well as following up all recommendations for wider scope and the financial statement audit.

## Additional Fees (Non-Audit Services)

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

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# Independence

## Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

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

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of NHS Grampian and the Group.

No non-audit services provided by Grant Thornton have been identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Annual Audit Report at the conclusion of the audit.



# Responsibilities

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

## NHS Grampian

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

## External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).





# Communication

ISA (UK) 260 ‘Communication with Those Charged With Governance’, as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

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		•

# Fraud responsibilities (1)

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

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

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

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

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

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

# Fraud responsibilities (2)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan;
- remain alert to new risks and amend our risk assessments accordingly; and
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2023/24, we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis;
- communicate emerging issues to Audit Scotland; and
- contribute to the National Fraud Initiative report.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2023/24) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Grampian we will report to the Auditor General as required by Audit Scotland.

# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
EFinancials	Financial reporting	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2023/24 financial year on these in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.
Wellsky	Operating Expenditure	
PECOS	Operating Expenditure	
ePayroll (Electronic Staff Record)	Payroll	
Real Asset Management (RAM) Asset 4000	Property, Plant and Equipment	

During our audit we will complete an assessment of the design and implementation of relevant ITGCs. Our work will also include a review of NHS Grampian's cyber security controls.

# Future auditing developments

There are changes to the following ISAs (UK) which will impact on our central government audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022:

- ISQM (UK) 2 (Issued July 2021) ‘Engagement Quality Reviews’
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’

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

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> <li>• ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review.</li> <li>• The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.</li> <li>• The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.</li> </ul>
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> <li>• Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>• The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.</li> </ul>

