Grant Thornton

Annual Audit Report for NHS Grampian

Financial year ended 31 March 2024

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

28 June 2024
FINAL

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 2024 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 2024, 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 2023/24 Government Financial Reporting Manual (FReM);
- 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 FReM 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.

Our audit work was completed during May-June. Our findings are summarised on pages 12 to 29. We have identified no audit adjustments to the financial statements that have impacted on NHS Grampian and the Group's reported financial position, in the unaudited accounts.

We have however identified a small number of unadjusted misstatements during the audit from our testing to date. They are individually and cumulatively well below our materiality thresholds. Management have decided not to adjust the financial statements as the misstatements are not material.

Audit adjustments are detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2 and 3. Our follow up of recommendations from the prior year's audit are detailed in Appendix 4. 13 out of 23 recommendations have been cleared with 10 in progress.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion.

We issued an unmodified audit opinion on 28 June 2024.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.
The quality of the annual report and accounts as well as supporting working papers provided to audit were of a good standard.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and their responsiveness in completing the external audit.

Executive Summary (2)

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 2024 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we identified one risk in respect of financial sustainability and one risk relating to use of resources to improve outcomes.

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. We have not identified any additional significant risks from our review carried out subsequent to our planning and risk assessment.

Further details of the work undertaken are outlined on pages 30 to 49.

We have raised two 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.

We have identified recommendations relating to the Baird and ANCHOR capital projects management to perform a lessons learned review which is presented to the Audit and Risk Committee for scrutiny. The project team should also look to reassess the business case benefits to confirm their current viability.

Introduction

Scope of our audit work

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.

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Risk Committee on 25 June 2024 and the Board on 28 June 2024.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority and is risk based, and in particular included:

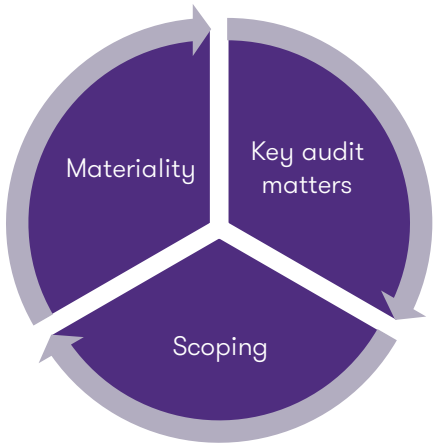
- An evaluation of NS Grampian's internal control environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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



Key audit matters and Significant Risks

Key audit matters were identified as the following significant risks:

- Management override of controls;
- Risk that expenditure, including operating expenditure and associated creditor balances is not complete; and
- Valuation of land and buildings.

Significant risks identified in our audit plan that are not considered key audit matters include;

- The revenue cycles includes fraudulent transactions (rebutted).

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 2024. 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 have uilitised an auditor's expert for the work on the valuation of land and buildings.

Our application of materiality

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.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2023/24 draft financial statements and concluded that materiality is £30.748 million for the Group (PY £22.54 million) and £29.277 million for NHS Grampian (£22.48 million), which equates to approximately 1.68% for the Group (PY 1.3%) and 1.6% for NHS Grampian (PY 1.3%) of your 2023/24 gross operating costs less IJB contributions of the Group and NHS Grampian.
- Performance materiality was set at £21.524 million (Group) (PY £13.52 million) and £20.493 million (NHS Grampian) (PY £13.49 million) representing 70% of our calculated materiality (PY 60%).
- We report to Officers (Management) any difference identified over £1.537 million (Group) and £1.463 million (NHS Grampian) representing 5% of our calculated materiality (PY £0.25 million).
- Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area of £25,000 (PY £25,000). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

There is a change in materiality values since our final audit plan was communicated to you on 12 March 2024 as final expenditure for 2023/24 was used as the basis of the calculation. The percentage chosen for higher materiality, performance materiality and triviality remains unchanged.

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.

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 £52.284 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 2022/23. There are no changes from our approach noted in our Audit Plan from 12 March 2024.

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 13-29.
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, no issues were noted from our work performed.
IJB Joint Ventures	No			Grant Thornton UK	Green	We have not identified any issues from our analytical procedures undertaken.

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	• planned procedures are substantially complete with no significant issues outstanding.
Amber	• planned procedures are ongoing/subject to review with no known significant issues.
Red	• planned procedures are incomplete and/or significant issues have been identified that require resolution.

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 2023/24 HM Treasury Financial Reporting Manual (FReM).
- 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.

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

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
Risk of fraud in revenue (rebutted)	Rebutted	↔	✓	×	Medium	Substantive	● Green
Management override of controls	Significant	↔	✓	✓	Low	Substantive	● Green
Valuation of land and buildings	Significant	↔	×	✓	High	Substantive	● Green
Completeness of expenditure and associated liabilities	Significant	↔	✓	✓	Medium	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.

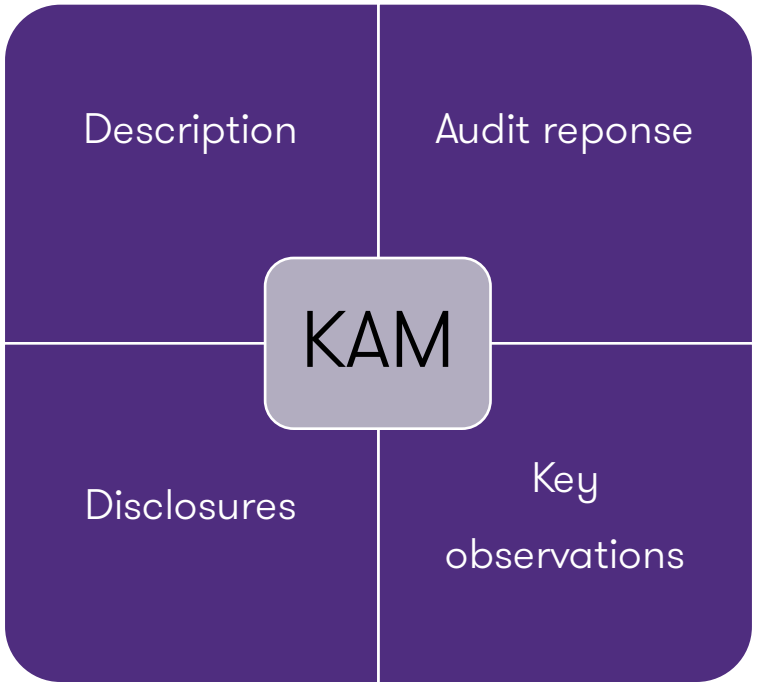
Key audit matters

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 (1)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions 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. (Rebutted)	Group and NHS Grampian	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: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being funding from the Scottish Government • 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 • 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. Therefore, we do not consider this to be a significant risk for NHS Grampian and the Group. **Conclusion** Our work has not identified any material issues in relation to revenue recognition.

Significant risk and Key Audit Matters (2)

Other significant risks identified in our Audit Plan	Risk relates to	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. 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.	Group and NHS Grampian	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 use 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. **Conclusion** Our testing of journals to date has identified one control weakness: • Users had the ability to authorise and approve their own journal without being subject to review, regardless of the amount being posted. This creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget. This control recommendation was raised in the prior year and the weakness existed until September 2023 when management put control measures in place to ensure segregation of duties over journal postings. As this control weakness operated for the first half of the financial year we had to perform enhanced audit procedures and we are required to report this deficiency to members however are satisfied that management has now resolved this recommendation. Further details can be found in Appendix 4- Follow up of prior year audit recommendations. **Our work has not identified any material issues in relation to management override of controls. We are satisfied from our work performed that there has been no identified instances of management override of controls that would result in a material misstatement of the financial statements.**

Significant risks and Key Audit Matters (3)

Key Audit Matter identified in our Audit Plan	Risk Relates to	Commentary
Valuation of land and buildings In accordance with the HM Treasury Financial Reporting Manual (FReM), 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 2024, NHS Grampian held property, plant and equipment (PPE) of £845.3 million including land and buildings of £534 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. 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.	NHS Grampian	In response to the risk highlighted in the audit plan we carried out the following work: • Evaluated 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; • Engaged our own valuations expert, to assess any judgemental assumptions used that underpin the final valuations; • Evaluated the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets were substantively tested to ensure the valuations are reasonable; • Challenged the key data and assumptions used by management's experts in the valuation process for these assets; • Tested 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 had been correctly reflected 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; and • Reviewed your impairment assessment as to whether there are indicators of impairment for key components of Assets Under Construction (AUC); and where there were indicators of impairment for AUC, we reviewed 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. **(See next slide for our results on work performed)**

Significant risks and Key Audit Matters (4)

Key Audit Matter identified in our Audit Plan	Risk Relates to	Commentary
Valuation of land and buildings	NHS Grampian	**Conclusion** • NHS Grampian utilise the Valuation Office Agency (VOA) as their management expert to perform the valuation of land and building assets. The VOA utilise a beacon methodology approach to valuing specialised building assets. The NAO commissioned Montague Evans to perform a review of the Valuation Office Agency (VOA) and the beacon approach utilised in their valuation method. The methodology used by the VOA is RICS compliant however the VoA are unable to provide evidence to support beacon costs used due to commercial sensitivity therefore we have performed our own audit procedures to determine our own point estimate using BCIS indices and comparing this to the costs used by the VOA to ensure the estimate is materially accurate. We identified specific components outside our expectation and we challenged the DV/VOA on these. Although we identified specific components that were significantly different to BCIS indices on an aggregate approach the net impact was not material. This resulted in an overall net projected understatement of £2.812 million compared to the valuation provided by the VOA. We are satisfied that there is unlikely to be a materially different value if BCIS rates were used. Whilst we are satisfied the value is not materially misstated as at 31 March 2024, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations. Therefore, the control recommendation made in prior year regarding valuation method utilised by your external valuer remains open. • We also undertook 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 £2.874 million and corresponding understatement of the revaluation reserve. This has been included as an unadjusted misstatement in Appendix 1. We raised a recommendation in the prior year regarding differences identified in floor areas used by the valuation expert and those recorded in NHS Grampian's system. Management has performed an exercise during the year to reduce the volume of differences and ensure complete and accurate floor area information is provided to the valuer to inform the valuation. NHS Grampian is currently moving systems for recording floor area information which provides more accurate floor area information, as the board transition to this system we have noted some differences as a result of 23/24 valuation being informed by the old system. Differences identified has reduced from the prior year which provides assurance that management are working to address this issue. We are satisfied the value of differences identified would not cause a material misstatement to the financial statements.

Significant risks and Key Audit Matters (5)

Key Audit Matter identified in our Audit Plan	Risk Relates to	Commentary
Valuation of land and buildings	NHS Grampian	**Conclusion (continued)** Management has assessed that an impairment of the Baird Family Hospital and ANCHOR Centre existed as at 31 March 2024. From our audit work undertaken in this area we have gained assurance this impairment is appropriately reflected within the financial statements. Overall, we are satisfied that the valuation of land and building assets within the financial statements is not materially misstated.

Significant risks and Key Audit Matters (6)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10) 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: "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". 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 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. We therefore consider this to be a significant risk to our audit however do not consider this to be a key audit matter.	NHS Grampian	In response to the risk highlighted in the audit plan we carried out the following work: • Evaluated the design and implementation effectiveness of the accounts payable system. • Evaluated the design and implementation effectiveness of your system for recording accruals. • Verified 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. • Searched for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end. • Searched for unrecorded liabilities by reviewing cash payments post period end. **Conclusion** **Our work has not identified any material issues in relation to completeness of expenditure and associated liabilities.**

Financial Statements – key judgements and estimates (1)

As required in NHS Grampian's Accounting Polices 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 – £545.8 million	Land and buildings comprises £496 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 £49.8 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. 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 not provided us access to this data.	Our work carried out in relation to the valuation of land and building is detailed on pages 15-17. As noted on page 16 we have identified an issue in relation floor plans used within valuations with an unadjusted misstatement of £2.874 million identified at Appendix 1. We have carried out our work in accordance with revised ISA 540 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. We have requested access to the source data for beacon costs used within the valuation 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. 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 most relevant BCIS for each component within the tested asset. We are satisfied that there is unlikely to be a materially different value if BCIS rates were used. Our difference to expectation using build cost data projected over the population resulted in a £2.812 million difference to the value provided by your expert. Whilst we are satisfied the value is not materially misstated as at 31 March 2024, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations. Therefore the control recommendation made in prior year regarding valuation method utilised by your external valuer remains open.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property, Plant and Equipment: depreciation including useful economic lives (UELs). – £27.872 million	NHS Grampian's approach to depreciation is set out in accounting policies: Note 1.7c – Property, plant and equipment - deprecation 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. 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. Property assets lives are provided by the valuers.	Our testing of Land and Buildings valuations and discussions with the valuer included an assessment over asset lives. We also reviewed the useful lives of plant and equipment. Our work identified one issue: • One asset was identified with a UEL outwith the range of lives outlined within Note 1.7c to the Accounting policies. This was due to the proposed demolition of the Aberdeen Maternity Hospital which management has estimated only has one year service potential. The accounting policy for UELs of buildings has been updated to reflect this change. **Conclusion** We have gained assurance from our work performed that depreciation charged within the financial statements is not materially misstated.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Commitments under HUB schemes – £63.738 million The total obligation recognised in the Comprehensive Statement of Financial Position (Note 18)	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 IFRIC 12 Service Concession Arrangements, as interpreted by the FReM, as "on-balance sheet" by NHS Grampian. 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.	We reviewed your assessment of the estimate considering: • 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 2024; • agreeing that accounting entries from the accounting model have been accurately recorded in NHS Grampian's accounts including the transitional accounting to reflect IFRS 16. **Conclusion** We have not identified any issues as a result of our work in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (5)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Accruals - £44.881 million Note 12 Trade and other payables	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 **Manual accruals** 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. **GRNI accruals** 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. **Annual leave accrual** The annual leave accrual is calculated based on a split between medical staffing, Agenda for Change (AfC) Staff on long term sick leave, AfC Staff on maternity leave and AfC nursing staff. The accrual is calculated by taking the WTE per grade, multiplying by the hourly rate and the hours carried forward at the year end.	**Conclusion** We have performed substantive testing on a sample of both manual and GRNI accruals. Our work has not identified any issues in this area. There has been a significant decrease in the annual leave accrual of £8.239million from the prior year. This is due to a change in policy for 2023-24 where management issued a directive disallowing flexibility around the carry forward of leave. Only medical staff, nursing staff, individuals on long-term sickness, and those on maternity leave were permitted to carry forward unused leave and have it recognised. We have not identified any issues from estimates calculated by management in respect of accruals.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Financial Statements – key judgements and estimates (6)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Clinical and medical negligence claims: - provision £175.012 million Note 13 provisions	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. 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.	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 2024 against 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. **Conclusion** We have not identified any issues in relation to our work performed in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Participation in CNORIS – £65.573 million Note 13 Provisions	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.	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 2024 and how the total value is apportioned to each health board. **Conclusion** Our work is concluded in this area, and we have no matters to raise.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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 identified one related party transaction which not been included within the draft financial statements, the value of transactions for this related party were £114,873. Management has now amended the financial statement to include disclosure of this related party, no other issues were identified from our work performed.
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 unadjusted material inconsistencies to report.

Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	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 Financial Reporting Manual (FReM) and NHS Scotland Manual for Accounts. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	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.
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	We are required to give a separate audit opinion on NHS Grampian's consolidation schedules and to carry out specified procedures on these schedules under group audit instructions. We have nothing to report on these matters.
Opinion on other aspects of the annual report and accounts	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.
Regularity	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.
Written representations	A letter of representation has been requested from NHS Grampian as required by auditing standards. This can be found as a separate agenda item to this report. We have not requested any additional representations from management.

Other key elements of the financial statements (3)

Issue	Commentary
Going concern	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. 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. 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: • 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.
National Fraud Initiative	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. 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. Thirty-five errors were identified relating to duplicate records Management has investigated these errors and there are currently 13 invoices outstanding with a monetary amount of £27,826 as at May 2024. No cases of fraud were identified from the matching exercise performed.

Other findings – Information Technology (1)

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating Security management	ITGC control area rating Technology acquisition, development and maintenance	ITGC control area rating Technology infrastructure	Related significant risks/other risks
EFinancials	ITGC assessment (design, implementation and operating effectiveness)	Green	Green	Green	Green	All significant risks
CMM System	ITGC assessment (design and implementation effectiveness only)	Green	Amber	Green	Green	Fraud in expenditure recognition
PECOS	ITGC assessment (design and implementation effectiveness only)	Green	Amber	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. Control issues relating to CMM System and PECOS have been outlined in a separate management IT report which has been agreed with management.

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)

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 2023/24 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 – Qualified
  Qualified opinion was based on issues related to controls surrounding new joiners and leavers where user access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data. The system for leavers is not disabled in a timely manner and therefore is a risk that former employees could continue to have access and process erroneous or unauthorised access transactions.
- NHS National Services Scotland - Practitioner and Counter Fraud Services – Qualified
  Qualified opinion was based on issues related to controls surrounding payment adjustment and patient detail amendment claims, MIDAS standing data (Dental Practices and Dental Contractors) updates and patient removal and review. There is a risk that inaccurate or incomplete GDS payments being made to contractors due to inadequate verification processes or duplicate payments being made leading to financial loss and inefficiencies in the payment system.

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 have adopted audit procedures through our substantive testing as well as testing of all information provided by the entity relevant to our audit work to gain assurance over the completeness, accuracy and occurrence/existence of the balances and transactions recorded within the financial statements.

Wider scope conclusions

Wider scope conclusions

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant wider scope risk in relation to financial sustainability and a significant risk in relation to use of resources to improve outcomes.

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

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Financial Management	The arrangements in place at NHS Grampian to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities	No	NHS Grampian operated within the Scottish Government brokerage cap set during 2023/24 however, the board required £24.8m additional funding in order to meet its revised revenue resource limit.
Financial Sustainability	The projected financial position of NHS Grampian in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the Health Board to effectively deliver services in the future	Yes	The medium-term financial plan reveals that NHS Grampian's cost base is unsustainable for future operations, based on current funding levels, with funding and efficiency savings falling short of covering the projected expenses. There is also a significant risk that achieving the efficiency targets outlined in NHS Grampian's financial plan may adversely affect operational performance levels.
Use of Resources to Improve Outcomes	How NHS Grampian demonstrates economy, efficiency and effectiveness through its use of financial and other resources	Yes	We have made recommendations relating to the Baird and ANCHOR capital projects management to perform a lessons learned review which is presented to the Audit and Risk Committee for scrutiny. The project team should also look to reassess the business case benefits to confirm their current viability.
Vison, Leadership and Governance	The effectiveness of NHS Grampian's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the Health Board	No	The governance arrangements are effective, with management demonstrating transparency regarding the Board's financial challenges. The Audit and Risk Committee's development days as an area of good practice, ensuring that members possess the necessary skills for effective scrutiny.

G	Appropriate arrangements are in place, minor improvement recommendations made
A	Appropriate arrangements are in place, improvement recommendations made
R	Significant risk identified

Wider scope audit (1)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Management No significant risks identified.	<u>2023/24 Financial Performance</u> The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. NHS Grampian was not able to set a balanced revenue budget for 2023/24 financial year. The plan submitted to Scottish Government in March 2023 projected a £60.6 million deficit for the year. In May 2023, Scottish Government confirmed additional funding for Health Boards which reduced the projected deficit to £42.9 million and further additional funding was provided in February 2024 which reduced the projected deficit to £25.1 million. The revised revenue resource limit set by Scottish Government was £1,440.631 million, the board's outturn is £1,440.535 million resulting in an underspend of £0.1 million. As outlined within the table below, NHS Grampian operated within the three key financial targets set by Scottish Government during 2023/24 only because the board received £24.8m brokerage funding in order to meet its revised revenue resource limit.	NHS Grampian operated within the three key financial targets set by Scottish Government during 2023/24 however, the board required £24.8m additional funding in order to meet its revised revenue resource limit.

Performance against resource limits set by SGHSCD	Revised Resource Limit £m	Outturn £m	Over/ (Underspend) £m
Core revenue resource limit	1,440.6	1,440.5	(0.1)
Non-core revenue resource limit	48.4	48.4	0
Total revenue resource limit	1,489.0	1,488.9	(0.1)
Core capital resource limit	113.6	113.6	0
Non-core capital resource limit	3.5	3.5	0
Total capital resource limit	117.1	117.1	0
Cash requirement	1,606.2	1,606.1	(0.1)

Source: NHS Grampian Annual Report and Accounts 2023/24 (rounded to one decimal place)

Wider scope audit (2)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Management (continued)	In March 2023, NHS Grampian's financial plan for 2023/24 estimated core revenue funding of £1.287 million from SGHSCD and net expenditure forecast of £1.348 million. This resulted in a financial gap of £60.6 million after savings expected to be delivered of £16.5 million. This position indicated a worsening position than 2022/23 where NHS Grampian incurred a deficit of £19.9 million as budgeted. The 2022/23 position 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 key areas of financial pressures identified during the year included the underlying deficit brought forward from previous years as well as agency locum costs and nursing agency costs. Non pay costs were also overspent due to medical supplies, equipment and service contracts mainly driven by high levels of inflation during the year. Financial performance updates continue to be reported at each Performance Assurance, Finance and Infrastructure Committee (PAFIC) meeting. The board receive and review the minutes of the PAFIC meetings at each board meeting however there is not a standing agenda at the Board meeting to receive a report on financial performance and is reported more so on an ad hoc basis. Our prior year audit identified regular reporting to PAFIC and the Board as a recommendation, although reporting has increased during the year, we recommend given the worsening financial forecast and future growing deficit position, the Board should look to consider receiving and scrutinising the financial performance reports at each board meeting to allow timely review and challenge of the board's financial position and that it is a standing agenda item at each open Board meeting to allow for transparent scrutiny and challenge of the board's financial position. <u>Savings delivery</u> Scottish Government required all health boards to deliver 3% recurring efficiency savings during the financial year. £16.557 million of savings was included within the financial plan split between £13.226 million recurring and £3.331 million non-recurring measures. NHS Grampian achieved savings of £17.52 million for the year (£10.2 million in 2022/23) split between £12.38 million recurring and £5.14 million non-recurring. Although the achievement of delivery of savings was above the target set for 2023/24, there has been substantial reliance on non-recurring measures to achieve a break-even position, leaving much of the opening gap still to be resolved in 2024/25. NHS Grampian starts the 2024/25 financial year with brought forward pressures of £86.821 million.	2023/24 budget processes followed appropriate governance processes however we recommend the implementation of receiving financial performance updates as a standing item at each board meeting to ensure timely review and challenge of the board's challenging financial position- see Appendix 4 - Follow up of prior year recommendations. We note the positive achievement that NHS Grampian has made in delivering savings above the target planned for 2023/24, however there remains a high risk of non-delivery of planned efficiencies in future years.

Wider scope audit (3)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Management (continued)	<u>Financial control arrangements</u> From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect NHS Grampian's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements. We identified one control deficiency relating to the ability for finance ledger users to post and authorise their own journals. This was flagged as a deficiency within the 2022/23 external audit and management has now addressed this control recommendation by implementing a control within the financial ledger to ensure segregation of duties when posting journals. We are satisfied this control deficiency has been appropriately addressed within the 2023/24 financial year. As part of our overall audit approach we rely on assurances from key service providers, this includes: • NHS National Services Scotland (NSS) provision of primary care payments and the national IT controls; and • NHS Ayrshire & Arran provision of the National Single Instance eFinancials service We considered the evidence from service auditor's assurance reports and other auditor assurances for 2023/24 and identified the following issues as detailed below: • NHS National Services Scotland - IT Services: Qualified opinion was provided based on issues related to controls surrounding new joiners and leavers where user access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data. The system for leavers is not disabled in a timely manner and therefore is a risk that former employees could continue to have access and process erroneous or unauthorised access transactions. 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.	NHS Grampian held appropriate internal control arrangements during the 2023/24 financial year.

Wider scope audit (4)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Management (continued)	Financial control arrangements (continued) From consideration of the reports, we have adopted audit procedures through our substantive testing to gain assurance over the completeness, accuracy and occurrence/existence of the balances and transactions recorded within the financial statements. We are satisfied that we have not identified any material issues in relation to NHS Grampian's financial statements as a result of these control deficiencies identified from the service auditor. <u>Standards of conduct for the prevention and detection of fraud and error</u> Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption. NHS Grampian has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect fraud and error. These include codes of conduct for members and officers, whistleblowing policy and a policy for the prevention, detection and investigation of suspected fraud, theft and corruption. A prior year audit recommendation was raised to ensure all key governance and financial documents include planned review dates and change/version logs. At the March 2024 Audit and Risk Committee members received the updated standing financial instructions and schedule of reserved decisions for review and approval which included planed review dates and change/version logs. We are satisfied that the control recommendation raised in the prior year has been resolved. We assessed key financial and governance policies to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. NHS Grampian also participate in the National Fraud Initiative (NFI) which is a bi-annual counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We carried out a review of the board's participation in the current NFI exercise and concluded that the board is adequately engaged. The approach to investigating matches is well understood and the number of matches investigated as part of the exercise appears reasonable. NFI participation is also reported to the Audit and Risk Committee. Thirty-five errors were identified relating to duplicate records Management has investigated these errors and there are currently 13 invoices outstanding with a monetary amount of £27,826 as at May 2024. No cases of fraud were identified from the matching exercise performed.	Standards of conduct for prevention and detection of fraud and error are appropriate.

Wider scope audit (5)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Sustainability Significant Risk: 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.	Audit Scotland's NHS in Scotland 2023 report highlights significant financial concerns across the health sector. Despite increases in health funding, health boards face substantial financial pressures. These pressures stem from growing demand, operational challenges, and rising costs, which exacerbate the financial strain already present within the NHS. Without reform, the long-term affordability of the NHS remains at risk. <u>Short to medium term financial planning</u> In 2023/24, NHS Grampian incurred an overspend of £24.7 million against the revenue budget, as agreed with the Scottish Government (SG). This marks the first instance of overspending against the revenue budget for NHS Grampian, underscoring the severe financial pressures faced by the health system in the North East and across Scotland. To achieve the £24.7 million position, the board relied heavily on non-recurring measures. Additionally, NHS Grampian secured brokerage support from the Scottish Government to cover the overspend, which must be repaid. Due to concerns about the board's financial position, NHS Grampian was escalated from Stage 1 to Stage 2 of the Scottish Government's support and intervention framework in 2023/24. NHS Grampian has developed a three-year financial plan for the period 2023/24 to 2025/26. This plan is based on several assumptions, including allocation uplifts, inflationary costs, and pay growth. The Plan was submitted to the Scottish Government on 15 March 2024 and presented to the Board on 14 March 2024. It details projected variances against Core Revenue Resource Limit (RRL) of £95.4 million in 2024/25, £92.8 million in 2025/26 and £101.8 million in 2026/27, before savings. Indicative savings targets of £80.2 million have been included within the financial plan for 2024/25 however only £34.5 million of savings have been identified so far. Savings achieved in 2023/24 equated to £17.52 million, therefore there is a significant risk of the board achieving the significantly increased savings target outlined for 2024/25.	The medium-term financial plan reveals that NHS Grampian's cost base is unsustainable, for future operations based on current funding levels, with funding and efficiency savings falling short of covering the projected expenses.

Wider scope audit (6)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Sustainability (continued)	Following submission of the Plan, SG have asked the Board to undertake the following actions and to resubmit a revised finance plan to SG: • Develop a plan to deliver 3% recurring savings in 2024-25 and to develop options to meet any unidentified or medium/high risk savings balance; • Engage and take proactive involvement in supporting national programmes as they develop in 2024-25; • Develop further measures to reduce the Board's residual finance gap towards the brokerage cap set. At the date of drafting this report, the current financial plan has not yet been agreed by the Scottish Government and NHS Grampian are working on the following actions set out by SG to submit a revised financial plan. **The medium-term financial plan reveals that NHS Grampian's cost base is unsustainable for future operations based on current funding levels, with funding and efficiency savings falling short of covering the projected expenses.** The development of NHS Grampian's Value & Sustainability Programme, aimed at identifying the necessary cost reductions to achieve an overspend level of £15.3 million, remains a work in progress. Ongoing discussions are focused on the steps NHS Grampian needs to take to realise the required savings. Efforts are being made to secure senior management and clinical support for the necessary service reductions. Aspirational savings or service redesign proposals have been excluded from the plan in the absence of broader system buy-in. As a result, the Finance Plan for 2024/25, 2025/26, and 2026/27 still includes a significant balance for "unidentified savings." Achieving a break even position will require savings achievement of £92.8 million in 2025/26 and £101.1 million in 2026/27. Achievement of this level of savings is considered as very high risk, the three year plan does not assume any repayment of the £24.8 million brokerage that the Board has obtained in 2023/24 over the next three years.	

Wider scope audit (7)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Sustainability (continued)	NHS Grampian has outlined that the requirement for ongoing financial support in 2024/25 is due to several key factors: • Recurring Overspends: Reliance on non-recurring savings has exhausted many schemes used to reduce the deficit in 2023/24, limiting their availability for 2024/25. • Withdrawal of Funding: Loss of non-recurring Scottish Government funding (e.g., New Medicines) and increased CNORIS charges. • Operational Financial Pressures: Challenges in system flow, reductions in planned care funding, workforce issues leading to high supplementary staffing costs, and general inflation have resulted in average monthly overspends of £5 million in operational areas. • Funding Uplift: A 0% baseline funding uplift for 2024/25 does not cover increased costs in drugs, energy, service contracts, medical supplies, and other commitments. • NRAC Funding Formula: NHS Grampian is the second lowest funded board per capita in Scotland, with a funding share lower than its population share. • Acute Bed Base: NHS Grampian has fewer acute beds compared to smaller boards, limiting flexibility in patient flow management. While there was investment in bed capacity in 2023/24, no further financial ability exists for such investments in 2024/25 and beyond. <u>Delivery of Efficiencies</u> NHS Grampian has established a Programme Management Office to support its Value & Sustainability efforts, appointing a Programme Lead to oversee the initiatives. In 2024/25, the Value & Sustainability Group will be relaunched with a refreshed purpose, procedures, and enhanced governance and performance reporting arrangements. This relaunch will include regular updates on efficiency levels achieved against the plan. NHS Grampian's approach to Value & Sustainability in 2024/25 will be driven by both local and national decision-making levels. The total value of savings required to be made in 2024/25 is £80.175 million. The board have identified £34.9 million of savings (£22m recurring, £12.9 million non recurring) within a savings plan. £43.8 million of savings remains unidentified.	

Wider scope audit (8)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Sustainability (continued)	To advance their initiatives, NHS Grampian's Value & Sustainability Programme is structuring its efforts into three workstreams: • Grip and Control • Value and Sustainability • Transformation The forthcoming actions include swiftly developing individual projects for each focus area, informed by insights from two Chief Executive Team engagement sessions. The Programme Team will collaborate with services to identify cost-saving opportunities by facilitating time for strategic planning. An ongoing communication and engagement plan will be formulated, and operational teams will receive detailed costing information from the 2022/23 Cost Book to aid in generating savings ideas. It was outlined in the NHS Grampian finance plan for 2024/25 that further savings proposals (of £43.819 million) could significantly impact performance, particularly in unscheduled and elective care. Whilst these savings would help to achieve financial balance, some concerns were expressed that this would be at the expense of people and clinical performance. The Board have outlined that the risk to the Board's performance whilst recovering the financial position cannot be under estimated.	There is a significant risk that achieving the efficiency targets outlined in NHS Grampian's financial plan may adversely affect operational performance levels.

Wider scope audit (9)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes Significant Risk: 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.	<u>Background</u> NHS Grampian is undertaking two significant capital projects: • 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. NHS Assure conducts independent assurance reviews at key project stages, including business case development, construction, commissioning, and handover. Each review results in a report and observation list, with outcomes classified as either "supported" or "unsupported." Health Boards must prepare action plans to address findings and achieve "supported" status before projects can proceed. The NHSS Assure review process was introduced nationally after the construction phase of the Baird & ANCHOR project began. The ANCHOR Construction Stage received an "unsupported" status from NHSS Assure in March, 2023. The report highlighted NHSS Assure's concerns about Infection Prevention Control Team (IPCT) involvement and resource capacity, noting unresolved issues and staffing challenges during the pandemic. Since autumn 2022, renewed engagement with IPC staff has occurred, and dedicated IPC resources and processes have been established to address outstanding issues. An action plan was implemented involving estates, Infection Prevention Control (IPC) staff, and other stakeholders. Progress has been regularly reported to the Project Board, Asset Management Group, and relevant NHS Grampian committees throughout the year.	

Wider scope audit (10)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	<u>Background (continued)</u> Due to issues identified in the ANCHOR Construction KSAR Report and by the Infection Prevention Control Team (IPCT), four main areas are under redesign consideration. The Covid-19 pandemic initially limited IPCT's capacity to support this project, but they are now fully involved. The project team, stakeholders, and experts, including IPCT and estates staff have worked during the year to address these issues to ensure compliance with guidance and safety standards. As a result of the issues identified from the KSAR review this pushed back the proposed opening dates of the Baird and ANCHOR sites. In December 2023, the Board were informed that the potential opening date for either facility was uncertain until the outcome of the ongoing design review was known, including an assessment of the feasibility, cost and programme impact on any required changes. NHS Grampian has instructed the Principal Supply Chain Partner (PSCP) to carry out feasibility studies to mitigate identified risks. Completing these studies is essential to estimate costs and evaluate strategies to address Healthcare Associated Infection (HAI) issues identified within the KSAR review. Once costs are approved and work is scoped, it is expected this will provide a timeline for closing out the buildings work. <u>Review of arrangements in place to monitor and track delivery of the Baird and ANCHOR capital projects</u> As a result of the unsupported KSAR review status an issue resolution process was put in place to resolve KSAR and IPCT issues: Joint workshops were held to understand each issue, review guidance and determine if and where changes were needed For complex issues without consensus, stakeholders were encouraged to share written perspectives. These were reviewed in joint meetings with NHSS Assure's advisory input to reach a consensus. If consensus is still not reached, the issue is escalated to an NHS Grampian Executive Director panel, which reviews the situation and makes a risk-based recommendation to the NHS Grampian Chief Executive Team for a final decision.	

Wider scope audit (11)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	<u>Review of arrangements in place to monitor and track delivery of the Baird and ANCHOR capital projects (continued)</u> Board papers in April 2023 noted that the NHS Grampian Audit & Risk Committee would receive a summary report after all key issues are resolved to review risk management and derive lessons for future projects. Our review of documents and attendance at the Audit and Risk Committee meetings found that a review of risk management and lessons learned from the Baird and ANCHOR projects has not yet been presented to the committee. We recommend that this action, as outlined in last year's Board papers, be prioritised, presented to and reviewed by the Audit and Risk Committee. Formal quality meetings have been held monthly between NHS Grampian and the PSCP to review general progress, lessons learned and to ensure follow up and resolution of quality issues. Fortnightly discussions involving the NHSS Assure team and senior members of the project team are now in place to ensure ongoing engagement and dialogue regarding planning for the next KSAR reviews. Senior members of the project team also meet with Scottish Government on a weekly basis to discuss progress, emerging risks and issues on the projects.	Recommendation: A review of risk management and lessons learned from the Baird and ANCHOR projects has not yet been presented to the Audit and Risk committee. We recommend that this action, as outlined in last year's Board papers, be prioritised and reviewed by the Audit and Risk Committee.

Wider scope audit (12)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	<u>Review of arrangements in place to monitor and track delivery of the Baird and ANCHOR capital projects (continued)</u> The project progress is reported on a monthly basis to a Project Board and to the Asset Management Group (AMG). Specific project reports are received by the Board and PAFIC as required. We have noted increased reporting to both PAFIC and the Board during the year as a result of the audit recommendation raised in the prior year. We are satisfied that Board have been provided regular reports throughout the year to ensure transparency of progress of the projects and any emerging risks and issues. We note that an internal audit review was carried out in December 2022 on the contract compliance review of the PSCP. Two medium findings were identified relating to the cost rates calculated by the PSCP to calculate the employee costs charged to the project. The value was not considered significant in relation to the total spend on the project. A further internal audit review is being carried out at the time of drafting this report on the terms of reference for capital procurement which includes the Baird and ANCHOR projects within its scope. We have not had sight of the findings of this review and therefore unable to comment on the findings from this review. <u>Review of arrangements in place to ensure supplier engagement is operating effectively</u> Due to the unsupported status from the KSAR review and the findings from IPCT, several elements of the build have required redesign since the original scope of work was agreed upon with the PSCP. These redesigns and other aspects impacting delivery have introduced challenges, affecting both the cost and progress of the project. NHS Grampian's project team for Baird and ANCHOR meets biweekly to discuss key issues and holds monthly meetings with the PSCP to address commercial concerns and the impact of changes. The volume and scale of potential changes have at times strained supplier relations however, efforts continue on both sides to ensure ongoing project progress.	

Wider scope audit (13)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	<u>Review of arrangements in place to ensure supplier engagement is operating effectively (continued)</u> Risk management procedures are a key feature of the project with a risk register maintained monthly by all parties, weekly risk reduction meetings and regular reporting of key risks to the Project Board. Project Directors from the construction companies involved in the projects attend the monthly risk register meetings with key NHS Grampian project staff. This collaboration facilitates the identification, monitoring, and resolution of emerging risks and issues by all parties involved in the project. **There has at times been a strain in relationships between the PSCP and NHS Grampian. It is our understanding that although this process has been challenging, both parties continue to communicate to ensure work progresses and delivery of the project continues.** <u>Review of arrangements in place to revisit and update planning assumptions and business cases relating to Baird and Anchor capital projects</u> Discussions with senior members of the project team has identified that a re-review of benefits included within the business cases of the capital projects has not been performed since the business cases were developed. The project team is currently assessing design changes and their impact before factoring in benefits realisation. Design changes may necessitate adaptations to clinical practices, requiring a reassessment of the proposed benefits. A programme of work has been identified to review benefits realisation. Although the dates for building occupancy remain unknown, NHS Grampian has allocated resources to support and advance this work. Post-project evaluation will address benefits and financial outcomes, as well as lessons learned, with a designated representative overseeing this process moving forward. We recommend that the project team revisit the proposed benefits outlined in the business case. It is essential to determine whether these benefits remain achievable or if they need to be amended and updated due to the passage of time or potential design changes. This will ensure that benefits can be accurately tracked and monitored during the delivery and post-implementation phases of the projects.	**Supplier engagement continues to operate to ensure progression of delivery of the capital project.** **Recommendation: We recommend that the project team revisit the proposed benefits outlined in the business case. It is essential to determine whether these benefits remain achievable or if they need to be amended and updated due to the passage of time or potential design changes.**

Wider scope audit (14)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	<u>Review of arrangements in place to ensure project costs are monitored and approved</u> Cost monitoring focuses on the last approved budget and is tracked back to the original budget that was approved as part of the business case. Formal returns on project costs and forecast are submitted to Scottish Government as part of the capital planning mechanism. Scottish Government has continued to agree to cover the costs incurred relating to the capital projects. Project costs are monitored initially by the deputy project director alongside the Boards Cost Advisor in which forecasts are created, prepared and reported to the project board on a monthly basis. The Performance Assurance, Finance and Infrastructure Committee (PAFIC) and the Board receive reports on the financial position of the projects. Where any significant changes to costs are identified these are reported to the Board for scrutiny and challenge. We have also observed evidence of authority delegated to the Interim Chief Executive and Director of Finance to approve significant cost changes. In our prior year annual audit report, we noted that forecast revenue costs for the project had remained unchanged since the business case approval. Given the rise in inflation since 2018, there is a risk that these costs could have increased. We recommended that NHS Grampian regularly review all capital and revenue components to ensure the forecasts for the Baird and ANCHOR Centre remain accurate. During the financial year, NHS Grampian updated the estimated running costs for the ANCHOR Centre and incorporated them into the financial plan for 2023/24. However, the estimated running costs for the Baird Hospital have not yet been refreshed and are being reviewed as part of the budget setting process for 2024/25.	We are satisfied that arrangements are in place to ensure project costs are monitored and approved.

Wider scope audit (15)

Wider scope dimension	Wider scope audit response and findings	Conclusion

Use of Resources to Improve Outcomes

Key National Targets

NHS Grampian's performance against national targets has shown some improvements and continued challenges in 2023/24.

Improvements:

- Child and Adolescent Mental Health Services (CAMHS) consistently exceeded the 90% target, except for July and August 2023.

Challenges:

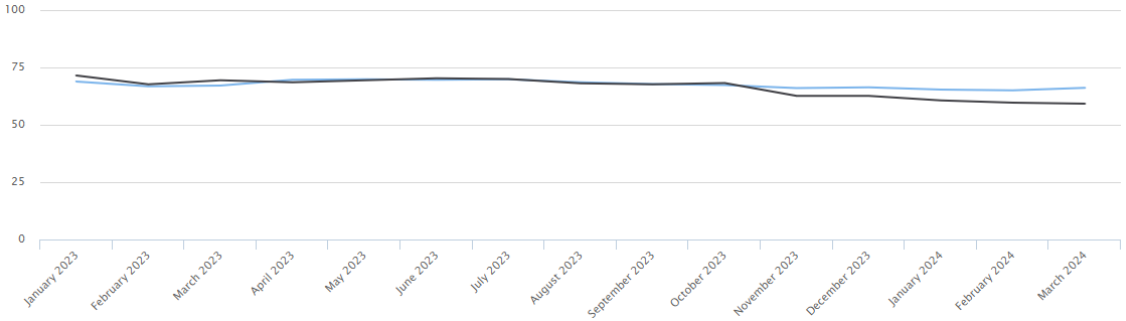
- The percentage of patients seen within 4 hours in A&E remained below the 98% national target, averaging 68% throughout the year.
- Cancer treatment performance did not meet the 95% standard for the 31-day target in any quarter, and the 62-day performance has declined, failing to meet the national standard.

95% of patients to wait no longer than four hours from arrival to admission, discharge or transfer for Accidental and Emergency (A&E) treatment

Total A&E attendances in March 2024 were 10,878, an increase of 10% over March 2023.. In March 2024, 67.8% of A&E patients were seen within 4 hours, compared to 65.2% in March 2023, against a Scotland-wide rate of 67.4% (68% in March 2023). This target was not met during 2023/24.

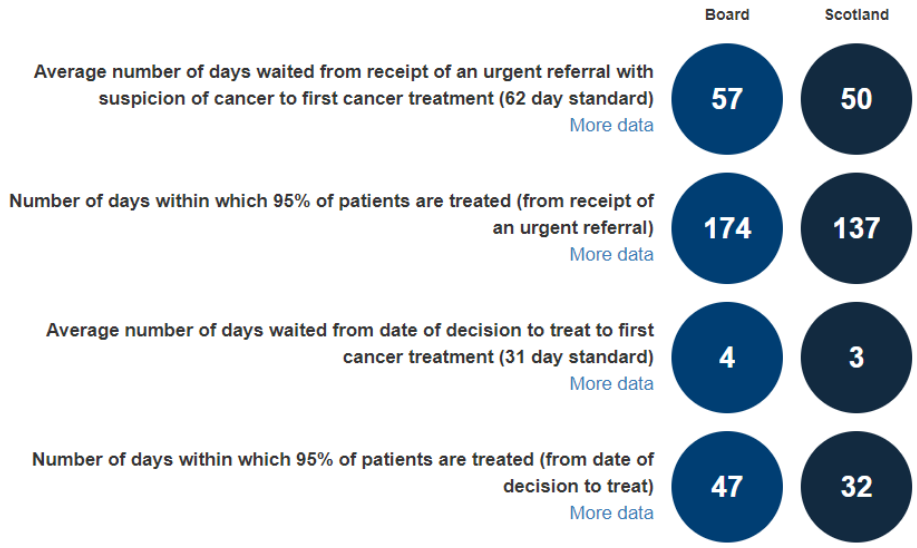
The percentage of patient journeys completed within 18 weeks - from GP referral to outpatient appointment and / or treatment

NHS Grampian's performance in relation to referral to treatment (average 65.57%) was in line with the Scottish average (67.61%) during the 2023/24 financial year with a slight decrease being noted between October and March 2024.



Data Source: NHS Perform March 2024

Wider scope audit (16)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Use of Resources to Improve Outcomes	Key National Targets (continued) Cancer Access Times: 31 days from decision to treat (95%) and 62 days from urgent referral with suspicion of cancer (95%). NHS Grampian has experienced an increase in urgent suspected cancer (USC) referrals and a backlog in Urology and Colorectal pathways, reflecting the national trend. A significant factor contributing to patient breaches is limited theatre capacity, exacerbated by the need to address long-wait patients with more advanced surgical stages and high-acuity complex non-cancer surgeries. Cancer treatment performance did not meet the 95% standard for the 31-day target in any quarter, and the 62-day performance has declined, failing to meet the national standard. Data obtained from NHS Perform shows the average waiting times for cancer treatment and the number of days within which 95% of patients with newly diagnosed primary cancers are treated. Performance results between July – September 2023 (latest publicly available data) shows that the board are above the average number of days for treatment and referrals in relation to cancer treatment compared to the national Scottish average.  	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.

Wider scope audit (17)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance No significant risks identified.	NHS Grampian's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. The Board is supported by a number of committees. The minutes of committee and sub-committee meetings are presented to the Board. In addition, minutes from meetings of Aberdeen City IJB, Aberdeenshire IJB and Moray IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at all three IJBs, this presents the exercise of control over each IJB which is shared equally between Grampian Health Board and the relevant Local Authority. Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There have been a number of governance changes to the Board during the 2023/24 financial year. Dr Coldwells was appointed as Interim Chief Executive from 17 August 2023 to 10 October 2023 to cover a period of absence by the Chief Executive. He was subsequently re-appointed as Interim Chief Executive from 11 December 2023 following the Chief Executive's secondment to NHS Tayside. There was also a new chair of the Audit and Risk Committee appointed in September 2023. In August 2023, the Board approved a Three-Year Delivery Plan for 2023-2026, encompassing the Annual Delivery Plan and Medium-Term Financial Plan for NHS Grampian. The plan outlines the steps NHS Grampian will take to address priority areas and strategic objectives outlined in the "Plan for the Future" for 2023-2026, in alignment with the Scottish Government's ten recovery priority areas. The Delivery Plan received Board endorsement in August 2023, was approved by the Scottish Government in September 2023, and was formally adopted by the Board in October 2023. The "Plan for the Future" plan will be progressed through a programme of priority projects and actions, each with defined milestones, which is detailed in the three-year rolling Delivery Plan.	Governance arrangements are appropriate and effective. We are satisfied that management have been open and transparent with the Board on its challenging financial position.

Wider scope audit (18)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance	"Putting People First" was designated as a priority area for action in the Annual Delivery Plan submitted to the Scottish Government in March 2024. NHS Grampian's "Plan for the Future" outlines the ambition to transform public relations to establish a more preventative system and develop sustainable community-based care models. The "Putting People First" framework was presented to the Board for endorsement in June 2024. Progress will be monitored by the newly established Putting People First Oversight Group, which will report regularly to the Population Health Committee. The Medium-Term Financial Plan has been revisited by management and the board and identifies significant financial pressures related to pay awards, energy charges, and the necessary investments to achieve net-zero carbon emissions. These factors have heightened the risk to the Board's financial sustainability and its ability to achieve financial balance. The plan acknowledges the challenges and difficult decisions required to manage healthcare demands effectively without compromising the quality or safety of care. We are satisfied that management have been open and transparent with the Board on its challenging financial position. The Board's performance reporting, through both the 'How Are We Doing' performance report and reports to the Performance Assurance Infrastructure and Finance Committee, is aligned with Delivery Plan priorities. Milestone monitoring is further supported by the development of NHS Grampian's Integrated Performance Assurance Framework that was introduced during the year. Through our attendance at the Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and this enables the Audit and Risk Committee to exercise effective scrutiny. The Audit and Risk Committee conducted a development session in May 2023, concentrating on the preparation of annual accounts and technical accounting. A subsequent session took place in November 2023, featuring presentations on counter fraud information governance and the Board's strategic risk management process. An annual meeting of Audit and Risk Committee members and auditors was held in May 2024 to discuss any the effectiveness of audit and audit and risk committee meetings. The development days conducted by the Audit and Risk Committee are noted as areas of good practice, ensuring that members possess the necessary skills and knowledge to exercise effective scrutiny.	**The development days conducted by the Audit and Risk Committee are noted as an area of good practice, ensuring that members possess the necessary skills and knowledge to exercise effective scrutiny.**

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

No adjusted misstatements have been identified at the date of issuing our report. We will provide an update to Management and the Audit Committee should any issues be identified from the remaining testing.

1. Audit Adjustments (2)

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 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?
Annual Report	We identified a number of figures within the financial performance section that were inconsistent to the draft financial statements. These has now been amended by management.	Yes
Remuneration Report and Staff Report and Parliamentary Accountability Report	A number of disclosures had not been included within the draft remuneration and parliamentary accountability report provided to audit including; - Relationship between the highest paid Director and the workforce median remuneration table; - Benefits in kind and pension benefits within remuneration report tables; - Pension tables for senior officers and members - Losses and special payments - Sickness absence This was due to management awaiting information for inclusion within the report.	Yes
Note 1.4 - Going Concern	Management has enhanced disclosure to outline that NHS Grampian will continue to provide services for the foreseeable future.	Yes
Accounting Policies – Note 1.4	One asset was identified with a UEL outwith the range of lives outlined within Note 1.7c to the Accounting policies. This was due to the proposed demolition of the Aberdeen Maternity Hospital which management has estimated only has one year service potential. The accounting policy for UELs of buildings has been updated to reflect this change.	Yes
Accounting Policies – Note 1.7(b)	Accounting Policy outlines that "Non-specialised land and buildings, such as offices, are stated at fair value." Non-specialised land and buildings are valued at Existing Use Value (EUV) therefore management has amended the policy to reflect this.	Yes

1. Audit Adjustments (3)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Consolidated cashflow statement	Comparator amounts had not been disclosed for 2022/23, management has now updated the consolidated cashflow statement to include comparator amounts.	Yes
Summary of core revenue resource outturn	Disclosure has been updated to reflect the final allocation letters provided by Scottish Government, resulting in a revised underspend from £0.249 million to £0.96 million.	Yes
Note 3- Audit Fees	The audit fee disclosed in the draft financial statements did not reconcile to the audit fee set out within the audit plan issued in March 2024.	Yes
Note 3b – Other Operating Expenditure	Other operating expenses of £73.164 million has been further disaggregated to explain to the reader of the accounts what is contained within this balance.	Yes
Note 3b- Board non-staff Operating Costs	**Goods and Services from other NHS Scotland Bodies** Our testing identified £12.079 million of expenditure from other NHS Scotland bodies misclassified within other expenditure within Note 3. This is a classification issue only and has no impact on the net income position.	No- non-material classification error
Note 4a- Board operating income	Other operating income of £35.264 million has been further disaggregated to explain to the reader of the accounts what is contained within this balance.	Yes
Note 4b- Board Operating Income	**Income from other NHS Scotland Bodies** Our testing identified £2.504 million of income from other NHS Scotland bodies misclassified within other income within Note 4. This is a classification issue only and has no impact on the net income position.	No- non-material classification error
Note 12 – Trade Payables	WGA classification has been updated to reflect classification split of payables to include WGA, balances with NHS bodies in England and Wales and balances with bodies external to Government.	Yes

1. Audit Adjustments (4)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 19 - Pension Costs	Disclosure had not been included in the initial draft version of the accounts provided to audit due to delays in receipt of information from SPPA.	Yes
Note 20- Financial Instruments	We identified that 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 under IFRS 9. The value of these items is £10.409million. We identified the same finding and highlighted this within our annual audit report in the previous year. Management has decided not to adjust for the disclosure issue highlighted. We are satisfied that this is not material to the financial statements.	No
Note 22- Related Party Transactions	We identified one related party transaction which not been included within the draft financial statements, the value of transactions for this related party were £114,873.	Yes
Various	A number of other minor disclosure and presentational amendments were identified and corrected by management.	Yes

1. Audit Adjustments (5)

Impact of unadjusted misstatements

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

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Land and Building Valuations - Beacon Methodology The DV/VOA were unable to provide evidence to support beacon costs used within their valuation of land and buildings and therefore we have performed our own audit procedures to determine our own point estimate using BCIS indices and comparing this to the costs used by the VOA to ensure the estimate is materially accurate. We identified specific components outside our expectation and we challenged the DV/VOA on these. Although we identified specific components that were significantly different to BCIS indices on an aggregate approach the net impact was not material. This resulted in an overall net projected understatement of £2.812 million compared to the valuation provided by the VOA.	DR Revaluation Movements £2,812	CR Property, Plant and Equipment £2,812	DR Revaluation Movements £2,812	Non- material extrapolated error.
Land and Building Valuations - Floor Areas Our work identified differences in floor areas between floor plans held by NHS Grampian and floor areas used in the valuation of buildings. We have projected the differences identified over the buildings subject to depreciated replacement cost valuation resulting in an extrapolated misstatement of £2.837 million.	DR Revaluation Movements £2,837	CR Property, Plant and Equipment £2,837	DR Revaluation Movements £2,837	Non- material extrapolated error.
Overall impact (for this page only)	£5,649	(£5,649)	£5,649	

1. Audit Adjustments (6)

Impact of unadjusted misstatements (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
RTA Debtors We have noted that any RTA debt over 5 years no longer appears on the CRU system. These debts are 100% provided for due to the length of time they have been outstanding and therefore the net impact on the balance sheet is nil however, we have been unable to obtain assurance whether the gross position stated within the receivables note is accurate for RTA debt over 5 years and therefore management should review outstanding debt over 5 years and consider full write off of the debtor from the receivables balance to ensure the gross amount is not misstated. We have identified the total RTA debt over 5 years that we could not obtain assurance over equates to £1.373 million and therefore is an immaterial uncertainty in the gross value of debtors.		CR Debtors £1,373 DR Impairment of receivables £1,373		Non- material uncertainty.
Property, Plant and Equipment Additions We identified one item subject to testing which was capitalised in 2023/24 however we believe should have been capitalised in 2022/23. Evidence viewed identified that the lease agreement was in place from July 2021 however had not been capitalised on transition to IFRS 16 in 2022/23. The value of the asset was £451,772. We extrapolated the error over the population tested which resulted in an extrapolated misstatement of £2.019million.		DR PPE B/F Opening Cost 2,019 CR PPE Additions 2,019		Non material extrapolated error.
Overall impact (for this page only)	Nil	Nil	Nil	

1. Audit Adjustments (7)

Impact of unadjusted misstatements (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Clinical and Medical Provision We performed a recalculation of the expected provision for clinical and medical claims based on the risk factor determined by the Central Legal Office. Our recalculation of the provision amount was £1.527 million different to that calculated by management.	DR Expenditure £1,527	CR Clinical and Medical Provision £1,527	DR Expenditure £1,527	Non material error
Overall impact (for this page only)	£1,527	(£1,527)	£1,527	
Overall impact of unadjusted misstatements	£7,176	(£7,176)	£7,176	

Impact of unadjusted misstatements in the prior year (1)

The table below provides details of all unadjusted misstatements brought forward from the 2022/23 audit. Management did not to amend the financial statements for these errors, as they were not material. The impact for 2023/24 is not material and therefore management did not amend the current year financial statements for these prior period unadjusted errors.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Valuation of buildings			Nil	
Dr Property, plant and equipment – buildings valuation		5,510		
Cr Revaluation reserve		(5,510)		
Dr Revaluation reserve		531		Non material error
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)			Non material error
Being the misclassification of income from other NHS Scotland Bodies within other operating expenditure not adjusted for – factual misstatement				

Impact of unadjusted misstatements in the prior year (2)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Junior doctor pay offer – backdated pay provision			915	
Dr Employee Expenditure – medical and dental	1,736			
Cr Trade and other payables - provisions		(1,736)		Non material error
Dr Trade and other receivables - boards		821		
Cr Income from other NHS Scotland bodies	(821)			
Being the provision for backdated payaward for 2022/23 – judgemental misstatement				
Property, plant and equipment valuations			Nil	
Dr Property, plant and equipment – buildings valuation		2,849		Non material extrapolated error
Cr Revaluation reserve		(2,849)		
Being the correction of floor areas within buildings valuations – projected misstatement				
Road traffic accident debtor			930	
Dr Other income	930			Non material extrapolated error
Cr Trade and other receivables – accrued income		(930)		
Being the projected error for road traffic accident debtor and income – projected misstatement				

Impact of unadjusted misstatements in the prior year (3)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
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)		Non material error
Being the correction of assets that do not exist – judgemental misstatement				
FHS Accrual as a result of post year-end actuals			547	
Dr Drugs and medical supplies	547			Non material error
Cr FHS Accrual		(547)		
Being the correction of the year end FHS accrual – factual misstatement				
POP accrual errors			(5,367)	
Dr Accruals		5,367		Non material extrapolated error
Cr Other operating expenditure	(5,367)			
Being the correction of POP accruals – projected misstatement				
Overall impact	**(2,975)**	**2,975**	**(2,975)**	

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

We have identified one financial statement recommendation and three IT system recommendations for NHS Grampian and the group during our audit of the financial statements for the year ended 31 March 2024. We have agreed our recommendations with management and will report on progress on these recommendations during our 2024/25 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.

Note that the IT recommendations have been agreed with management in a separate IT action plan which is not included within this report.

Assessment	Issue and risk	Recommendations
Medium	Plant and Equipment Disposals During our test work for Plant and Equipment existence, we identified a control deficiency in management's asset tracking system. We found that for 3 out of the 5 assets tested, management had not properly disposed of the asset within the Fixed Asset Register (FAR). One had been disposed of before 31/03/2023 yet was still held in the opening FAR, one didn't have any supporting documentation for disposal in Jan 2024, and one is likely to have been disposed of but there is no evidence of disposal or initial ownership. There is a risk that plant and equipment assets are overstated in the accounts where management are not informed of disposal of assets.	It is important that management are able to ensure tracking of plant and equipment assets and appropriately inform finance on a timely basis of disposals to ensure this is correctly written out of the fixed asset register. **Management response:** The non-compliance with existing arrangements regarding the notification of asset disposal is recognised. A review of procedures, alongside an awareness raising exercise will be incorporated into programmed activities monitored by the Asset Management Group. **Responsible Officer: Assistant Director of Finance** **Target Date: March 2025**

Controls

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

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

We have set out below, based on our audit work undertaken in 2023/24, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response
Use of Resources to Improve Outcomes- Baird and ANCHOR (1) Board papers in April 2023 noted that the NHS Grampian Audit & Risk Committee would receive a summary report after all key issues are resolved to review risk management and derive lessons for future projects. Our review of documents and attendance at the Audit and Risk Committee meetings found that a review of risk management and lessons learned from the Baird and ANCHOR projects has not yet been presented to the committee. Board public paper 06/04/2023. **Recommendation:** We recommend that this action, as outlined in last year's Board papers, be prioritised and reviewed by the Audit and Risk Committee.	A risk management and lessons learned report will be prepared and reported to ARC during 2024/25. **Responsible Officer:** Baird and ANCHOR Project Director **Target Date:** December 2024
Use of Resources to Improve Outcomes- Baird and ANCHOR (2) Discussions with senior members of the project team has identified that a re-review of benefits included within the business cases of the capital projects has not been performed since the business cases were developed. The project team is currently assessing design changes and their impact before factoring in benefits realisation. Design changes may necessitate adaptations to clinical practices, requiring a reassessment of the proposed benefits. **Recommendation:** We recommend that the project team revisit the proposed benefits outlined in the business case. It is essential to determine whether these benefits remain achievable or if they need to be amended and updated due to the passage of time or potential design changes.	A Project Benefits report will be prepared and reported to the Project Board during 2024/25. **Responsible Officer:** Baird and ANCHOR Project Director **Target Date:** March 2025

4. Follow up of prior year recommendations (1)

We identified the following issues in the audit of NHS Grampian's 2023/24 financial statements, which resulted in 23 recommendations being reported in our 2022/23 Audit Findings Report. We have performed additional work in year to obtain assurance whether the recommendation from prior year has been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. 13 out of 23 recommendations have been cleared with 10 in progress.

Recommendations from financial statements audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	**Timeliness of draft accounts** 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. **Recommendation** 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.	Draft Timetable prepared during year incorporating lessons learned. Shared with External Auditors and reflected in their audit plan.	Annual accounts template was provided on 13 May 2024 and full draft annual report and accounts were provided to audit on 16 May 2024. This was in line with the agreed timeline however we would encourage NHS Grampian to continue to work to bring forward the date that accounts and annual report can be supplied to audit to ensure there is sufficient time for audit to perform audit procedures for final sign off by the end of June statutory deadline.

Assessment

- [Red] Recommendation is open
- [Amber] Recommendation is in progress
- [Green] Recommendation is closed

4. Follow up of prior year recommendations (2)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Red	**Valuation** 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. **Recommendation** 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. Challenge and review the valuations provided by the valuer.	NHS Grampian recognised this emerging issue and worked with our Valuer, and Others to ensure that the methodology adopted by our Professional Valuers had been endorsed as robust and that information provided to the valuer was complete and robustly reflected in the instructions issued. During 23/24 NHS Grampian worked with the Valuers and Other to ensure concerns raised in relation to the VOA approach by their auditors in 22/23 have been addressed. It is recognised that it is VOA policy not release source data due to commercial sensitives and therefore addressing this residual concern raised is not within the control of NHS Grampian management.	We have requested access to the source data for beacon costs used within the valuation from DV/VOA however the VoA are unable to provide evidence to support beacon costs used due to commercial sensitivity. 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. We then recalculated our own estimate to determine a potential value applying the most relevant BCIS for each component within the tested asset. We are satisfied that there is unlikely to be a materially different value if BCIS rates were used. Our difference to expectation using build cost data projected over the population resulted in a £2.812 million difference to the value provided by your expert. Whilst we are satisfied the value is not materially misstated as at 31 March 2024, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations. Therefore the control recommendation made in prior year regarding valuation method utilised by your external valuer remains open.

4. Follow up of prior year recommendations (3)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	**Late timeline of Board** 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. **Recommendation** 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.	NHS Grampian Board meeting scheduled for 28/6/24.	Satisfied Board meeting dates have been brought forward to ensure the annual report and accounts can be approved prior to the statutory deadline of 30 June 2024.
Amber	**Income from other NHS Scotland Bodies** 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. **Recommendation** Perform reconciliation between SFR 30 letters to the amounts recorded in the accounts to ensure the appropriate classification of transactions.	Revised guidance was issued to the service to support appropriate classification of transaction. The reconciliation between SFR 30 letters and amounts held in accounts was extended to include appropriate classification of transactions has been undertaken and this revised guidance appears to have been successful, albeit further code mapping is required, together with collaboration around amended processes nationally.	We have continued to identify misclassification issues relating to NHS income and expenditure and other income and expenditure (see page 54 for further details). There may be valid explanations for the coding of NHS income and expenditure being mapped to other income and expenditure however management need to provide assurance over their mapping for items which do not reconcile to the SFR 30 letters. Recommendation remains open.

4. Follow up of prior year recommendations (4)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	Timeliness of samples 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. Recommendation Ensure processes are in place to respond timely to all audit samples and queries.	Collaborative workshops held during the year to assist with planning, sample responses prioritised by team.	We are satisfied that management have appropriately prioritised responding to auditor queries on a timely basis. Prior year recommendation has been satisfactorily resolved.
Amber	Buildings valuation – floor areas 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. Recommendation Perform a review of floor plans provided to the valuer to ensure these reflect the underlying assets.	The floor plan GIFA held by Board was shared and used in 2023/24 by the Board's valuer. Full reconciliation of systems is ongoing.	We have continued to note differences between floor plans held by NHS Grampian and those utilised by the valuer although have noted a reduction in variances from the prior year and have obtained assurance that the differences identified would not result in a material difference to the valuation provided. Work ongoing by NHS Grampian to reconcile data therefore recommendation remains open.

4. Follow up of prior year recommendations (5)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	Journals 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. 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. 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. Recommendation Embed segregation of duties procedures to ensure journal are prepared and posted by different officers. Review all journals: • prepared and posted by the same officer; and • Posted by senior management.	Senior management access removed 26/6/23. System solution developed and implemented to ensure prepared and poster of journals are different officers.	We are satisfied that management has responded to the recommendation by implementing the recommended controls during the year. We performed enhanced audit testing over journals posted during the year due to the fact the control implemented only operated for the second half of the year. We did not identify any inappropriate or fraudulent postings from our work performed. Satisfied audit recommendation has been closed.

4. Follow up of prior year recommendations (6)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	POP accrual 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. 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. Recommendation Update the PECOS system to include matching controls when receipting goods into the system to increase accuracy of year-end POP accruals.	System solution identified and implemented 1/9/23.	We are satisfied that management has responded to the recommendation by implementing the recommended controls during the year. We performed audit testing over POP accruals posted during the year and did not identify any issues. Satisfied audit recommendation has been closed.

4. Follow up of prior year recommendations (7)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Amber	Debtors - Road Traffic Accidents (RTA) 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. A full list of outstanding debtor balances cannot be obtained from the NHS Injury Costs Recovery (ICR) website. 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. Recommendation Take screenshots of the ICR website whilst updating the RTA outstanding debt spreadsheet listing to create an audit log.	The process for maintaining a record of RTA outstanding debt has been reviewed and revised during the year. This will ensure the accuracy of the debtor, including a full audit of current debtor balances. Evidence will be retained to support the debtor. A review of historic debt will be undertaken during 2024/25 to identify dormant cases that can be prudently written off.	We have continued to note that any RTA debt over 5 years no longer appears on the CRU system. These debts are 100% provided for due to the length of time they have been outstanding and therefore the net impact on the balance sheet is nil however, we have been unable to obtain assurance whether the gross position stated within the receivables note is accurate and therefore management should review outstanding debt over 5 years and consider full write off of the debtor from the receivables balance to ensure the gross amount is not misstated. Further details can be found in appendix 1 where we have identified an unadjusted misstatement of £2.9 million relating to RTA bad debt where we could not confirm this balance back to supporting evidence.
Green	SFR 30 letters 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. Recommendation Ensure the £0.2 million threshold for SFR 30 letters is applied both to the outstanding balances and trading figures.	Procedures updated to consider both outstanding and trading figures and confirm within tolerance for 2023/24.	We have performed work to review the SFR30 letters between NHS Grampian and relevant health bodies and satisfied that the threshold for SFR30 letters has been applied appropriately. Recommendation is now resolved and closed.

4. Follow up of prior year recommendations (8)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Amber	Nil net book value assets 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: • 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. 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. Recommendation Perform a detailed review of their Useful Economic Lives policy and updated where appropriate. 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.	Amendment to accounting procedure developed and agreed during year Enhanced verification procedure implemented and returns demonstrate success. Shared with External Auditors in autumn 2023.	We are satisfied that management has performed procedures in year to reduce the number of nil NBV assets in the fixed asset register however our testing in this area continued to identified a number of nil NBV that were no longer in existence that had not been written out of the FAR, Therefore recommendation remains open and further work is required to cleanse the nil NBV assets from the FAR.

4. Follow up of prior year recommendations (9)

Recommendations from financial statements audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	NFI 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. Recommendation Report NFI progress updates the Audit and Risk Committee. Consider completing the self-appraisal checklist referred to in the 2021 NFI Report.	The NFI data matching exercise for 22/23 matches is now complete. A full report of the findings have been reported to the Audit and Risk Committee in December 2023. Part A of the Checklist was been reported to Audit and Risk Committee (March 2024) to inform the upcoming 2023/2024 Data matching exercise.	We have performed a review of the arrangements in place and participation in NFI matching exercise for 2022/23, we are satisfied recommendation has been resolved and is now closed.
Amber	Cyber security Internal audit undertook a review of NHS Grampian's review on Ransomware which resulted in four high risk findings and a critical rated report. 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. Recommendation Implement the recommendations from this report as soon as possible with appropriate monitoring arrangements put in place.	The plan to implement these recommendations was reported to Audit and Risk Committee in September 2023, regular monitoring by the Committee continues. The recommendations are still open.	Arrangements are in place to monitor and track progress against recommendations however, recommendations remain open.

4. Follow up of prior year recommendations (10)

Recommendations from wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Amber	**Financial Sustainability** 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. **Recommendation** 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.	Monthly reports continue to Scottish Government, PAFIC, Board Members and Executive Directors. These reports also provide an update on the Value & Sustainability Programme. A formal meeting with Scottish Government to review financial performance has recently been held.	Concerns over the financial sustainability of NHS Grampian continue. Audit recommendation remains in progress.
Amber	**Financial Sustainability** NHS Grampian has high supplementary staffing costs and staff turnover. A Workforce Action Plan has been implemented for tracking progress. **Recommendation** 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.	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.	NHS Grampian continues to experience high supplementary staff costs and staff turnover. Audit recommendation remains in progress.
Green	**Financial sustainability - Baird and ANCHOR Centre** Specific project reports have been received by the Board and PAFIC as required, rather than on a periodic basis throughout the project. **Recommendation** 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.	Baird and ANCHOR project progress reported each cycle to PAFIC and NHS Grampian Board.	We are satisfied more frequent reporting has been made to NHS Grampian Board and PAFIC during 2023/24, recommendation therefore has been closed.

4. Follow up of prior year recommendations (11)

Recommendations from wider scope audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Amber	**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.	Capital forecasts are reported regularly to the Project Board and Scottish Government. 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 are in the process of being refreshed as part of our revenue budget setting process for 2025/26.	We are satisfied that NHS Grampian has updated projected running costs within the 2023/24 financial plan however recommendation remains in progress as future revenue costs for the medium to longer term require to be revisited and refreshed.
Green	**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.	Documents updated during the year and approved by NHS Grampian 11 April 2024. These revisions incorporate planned review dates and version logs.	At the March 2024 Audit and Risk Committee members received the updated standing financial instructions and schedule of reserved decisions for review and approval which included planed review dates and change/version logs. We are satisfied that the control recommendation raised in the prior year has been resolved

4. Follow up of prior year recommendations (12)

Recommendations from wider scope audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Amber	**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.	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. PAFIC members were consulted regarding the format and level of detail that they wish to receive in the financial reports presented to them and feedback addressed.	Although reporting has increased during the year, we recommend given the worsening financial forecast and future growing deficit position, the Board should look to consider receiving and scrutinising the financial performance reports at each board meeting to allow timely review and challenge of the board's financial position and that it is a standing agenda item at each open Board meeting to allow for transparent scrutiny and challenge of the board's financial position.
Green	**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.	Progress towards the achievement of the Value & Sustainability Programme is reported to each meeting of PAFIC.	We are satisfied that delivery of savings is considered within the regular financial monitoring reports that are reported to PAFIC. Audit recommendation has been closed.

4. Follow up of prior year recommendations (13)

Recommendations from wider scope audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	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.	A reminder was sent to Board members in July 2023 to review their entry in the register and advise of changes. Responses have been received and the combined register updated accordingly. A further reminder for members to update their interests was sent out in January (6 months after the last one). Thereafter, the 6-monthly reminders will be in April and September each year. Correspondence from the Standards Commission is circulated to Board members.	We are satisfied that procedures have been put in place to remind board member to review and disclose of any changes in their register of interests. Audit recommendation has been closed.
Green	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.	The Audit and Risk Committee's Annual Plan adopted this requirement on 27 June 2023, progress against recommendations reported to the Committee quarterly.	We are satisfied that external audit recommendations have been reported to ARC on a quarterly basis ensuring appropriate follow up and resolution of external audit recommendations.

4. Follow up of prior year recommendations (14)

Recommendations from wider scope audit (continued)

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Green	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.	Arrangements are in place for regular updates to the Audit and Risk Committee from each IJB have been progressed during the year.	Assurance reports for 23/24 have been included within the Audit and Risk Committee agenda for June 2024. Audit recommendation is now 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.

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. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

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 £6,000, which has been agreed with the Director of Finance. This is relation to additional work during the audit in relation to follow up of prior year audit amendments, disclosure changes and recommendations as well as journal control weaknesses operating for the first half of the year requiring enhanced audit work.

The Annual Audit Report was considered by the Audit and Risk Committee on 25 June 2024 and Board on 28 June 2024 including agreement of audit fees.

External Audit Fee

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

Fees for other services

Service	Fees £
We confirm that for 2023/24 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 £266
- Total fees per previous page £266

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 Joanne Brown, Partner, 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 2023 (grantthornton.co.uk)

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.		•

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