External Audit Plan for the year ended 31 March 2025

The State Hospitals Board for Scotland

31 March 2025

Key contacts

Your key contacts in connection with this report are:

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Introduction

To the Audit Committee of The State Hospitals Board for Scotland

We are pleased to have the opportunity to meet with you on27 March 2025 to discuss our audit of the financial statements of The State Hospitals Board for Scotland ('the Board'), as at and for the year ending 31 March 2025.

This report outlines our risk assessment and planned audit approach. At page 24 we include our Wider Scope risk assessment as required by the Code of Audit Practice. At this stage of the audit, we have not identified any significant risks in respect of Wider Scope.

Our audit plan incorporates key elements of both International Auditing Standard (ISA) UK 315:Identifying and assessing the risks of material misstatement and ISA 240:The auditors responsibilities relating to Fraud.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Michael Wilkie is the engagement lead on the audit. He has on site years experience as Partner auditing entities under Audit Scotland. This is Michael's second year working on your audit.

John Blewett will continue to be the manager responsible for the audit and will be responsible for overseeing the delivery of our audit.

Other key members of the engagement team include Stacy McKay who will be the assistant manager for the audit and coordinate our on site fieldwork.

Yours sincerely,

Michael Wilkie

March 2025

Introduction (continued)

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion that is also important.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the auditing *Code*").

This report is for the benefit of The State Hospitals Board and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.
We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Introduction (continued)

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to The State Hospitals Board, telephone 0113 231 3396 or email: Michael.Wilkie@KPMG.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, our lead for our work for Audit Scotland, either by writing to him at 1, St Peter's Square, Manchester M2 3AE or by telephoning 0161 246 4774 or email to tim.cutler@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to John Cornett, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Audit summary

Financial Statement Audit

We have commenced our audit planning and risk assessment procedures and have identified the following risks on which we will focus our work.

As our planning and risk assessment continues, these may be updated.

Significant risks	Page
Valuation of Land & Buildings	8
Fraud risk - expenditure recognition	10
Revenue Fraud risk – rebuttal	12
Management override of controls	13
Estimates	
Valuation of Land & Buildings	14

Wider Scope risk assessment

We have commenced our wider scope risk assessment. Audit Scotland planning guidance sets a requirement to focus this risk assessment on the following areas:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes

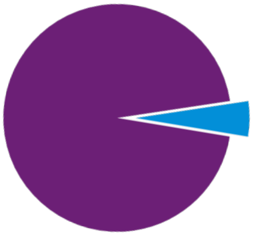
From the work performed so far we have not identified any significant risks in relation to these areas. See Wider Scope risk assessment at page 16.

Materiality Board

Total Board expenditure

£47.3m

(2023/24: £43.2m)



Board materiality

£1.2m

2% of expenditure
(2023/24: £1.05m, 2% of expenditure)

Board: £58k

Misstatements reported to the Audit Committee (2023/24: £53k)

Board: £0.86m

Procedure designed to detect individual errors at this level
(2023/24: £0.79m)

Board: £1.2m

Materiality for the financial statements as a whole
(2023/24: £1.05m)

Our materiality levels

We determined materiality for the Board financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate as it reflects the scale of the Trust's services and we consider this most clearly reflects the interests of users of the Trust's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality (£0.86m). We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors' salary information in the remuneration report (£5k).

Materiality vs other metrics

	2024/25
Total Revenue	**2.5%**
Total assets	**1.2%**

Audit risks and our audit approach

Valuation of land and buildings

Significant audit risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.

The value of the Board's land and buildings at 31 March 2024 was £80m, of which £79m are valued as specialised assets at depreciated replacement cost.

In accordance with its accounting policies, the Board measures its property assets at fair value through a 5-year programme of professional valuations which are adjusted in intervening years to take account of movements in prices since the last valuation. In line with its 5-year programme, a professional valuation was last completed at 31 March 2021.

Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates. The level of estimation uncertainty and the material nature of the Board's asset base represents an increased risk of material misstatement in the financial statements.

The Board is also in the process of completing the security upgrade which involves transferring assets from under construction to operational. Associated judgements arise in respect of categorisation, asset lives and replaced components.

Audit risks and our audit approach

Valuation of land and buildings (continued)

Significant audit risk

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the Valuations Office Agency, the valuers used in developing the valuation of the Board's properties at 31 March 2025;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Government Financial Reporting Manual (FReM), the NHS Capital Accounting Manual and the Board's accounting policies;
- We will compare the accuracy of the data provided by the valuers for the development of the valuation to underlying information, challenging management where variances are identified;
- We will evaluate the design and implementation of associated controls
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement.
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the FReM;
- We will assess the adequacy and outcome of the Board's most recent assessment for impairment across its estate; and
- We will challenge the completeness of PPE by considering the status of assets under construction.
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.
- We will consider the appropriateness of transfers from assets under construction.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Significant audit risk

Risk: Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period

As achieving a breakeven position against the Board's Core Revenue Resource Limit (RRL) is a key target, there is a risk that non-pay expenditure, may be manipulated in order to report that the breakeven position has been met.

— The setting of a breakeven target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. We have based this on our planning inquires to date.

— We consider this would be most likely to occur through understating accruals at the year end, for example to push back expenditure to 2025-26 to mitigate financial pressures.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Planned response

We would plan to include the following types of procedures to address this risk:

- We will evaluate the design and implementation of the controls in place for manual expenditure accruals;
- We will inspect a sample of invoices of expenditure, in the period around 31 March 2025, to determine whether expenditure has been recognised in the correct accounting period;
- We will select a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accrual had been completely recorded;
- We will inspect journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We will compare the items that were accrued at 31 March 2025 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2025 had been done so appropriately.

Audit risks and our audit approach

Revenue – Rebuttal of Signficant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the Board, we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Scottish government funding drawn down	The Health Board are allocated a funding envelope by Scottish Government, this funding is drawn down in cash to facilitate payments that are required.	The income is drawn down in cash, this is recognised on receipt and confirmation at year end leaves limited incentive or opportunities to manipulate the value recognised
Other Income from Scottish government	This is contract income from Service level agreements. This income is accounted for relating to the delivery of patient care.	The income is agreed in the contract, with simple recognition criteria linked to patient services delivered. The values are supported by the contracts and there is limited incentive or opportunities to manipulate the value recognised.
Other Income from NHS Bodies	This is contract income from other NHS Scotland bodies. This income is accounted for relating to the delivery of patient care.	The income is agreed in the contract, with simple recognition criteria linked to patient services delivered. The values are supported by the contracts and there is limited incentive or opportunities to manipulate the value recognised.
Other Income	Mix of income from non-NHS bodies.	This income stream is high volume, low value, with simple recognition criteria. We do not deem there to be any incentive or opportunity to manipulate the income and note there would need to be a significant volume of transactions misstated to create a material error.

Other significant matters relating to our audit approach

Disclosure of significant estimates and judgements

We have included here the disclosures of significant estimates and judgements from the prior year annual report and our assessment of the level of optimism included within the valuation as well as our assessment of the quality of disclosure made about the estimation uncertainty within the estimate:

Estimates and judgements	Balance [£m]	Further comments
Valuation of land and buildings (estimate)	£80m	The last full revaluation of Land and Buildings was performed in 2021 therefore the Board will continue to apply indexation to the land and buildings using the Build Cost Indices provided by the external valuer until the next full revaluation which is due in 2026.

Other estimates

We will also review the following non-significant estimates as part of our audit work

- Depreciation
- Provisions – as at March 2024 Provisions were recorded in relation to Pensions (£2.1m), CNORIS (£189k). We conclude that these provisions are not complex and therefore not significant estimates.

Audit cycle and timetable

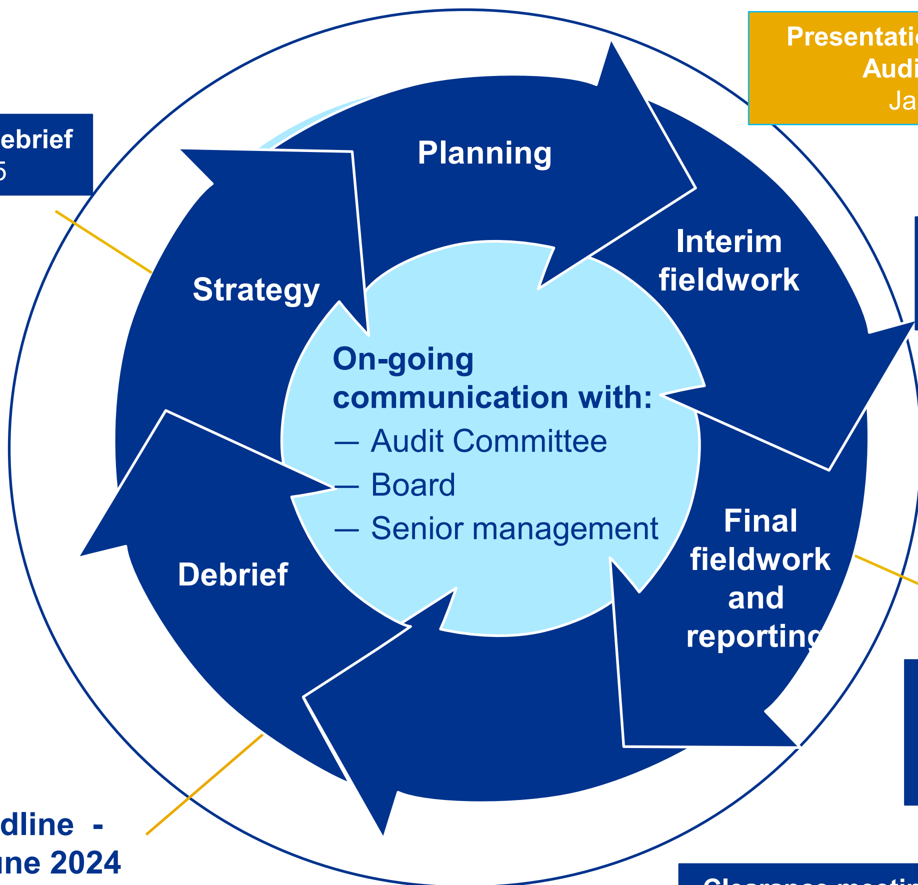
Our 2024/25 schedule

January 2025

Planning meeting with management
November 2024

Presentation of Audit Plan to Audit Committee
January 2025

Feedback & debrief
July 2025



Interim fieldwork
February/March 2025

Auditor submit the Audit Plan Audit Scotland
31 March 2025

March 2025

Final fieldwork
May - June 2025

Deadline - 30 June 2024

Clearance meetings
June 2025

Auditor submit the audited accounts incorporating the signed independent Auditors report to Audit Scotland
30 June 2025

Presentation of Management Letter to Audit Committee
June 2025

- **Key Events**
- **Audit Scotland communications**
- **Audit Committee communications**

Wider Scope

Wider Scope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit.
Auditors should consider these additional requirements when:
• identifying significant audit risks at the planning stage
• reporting the work done to form conclusions on those risks
• making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

The four wider-scope areas are briefly defined and the areas of focus and current position with the Risk Assessment work.
• Financial Management – Page 17;
• Financial Sustainability – Page 18;
• Vision, Leadership and Governance – Page 19 and;
• Use of Resources to Improve Outcomes – Page 20

Reporting within the Annual Audit Report

We will report on the four wider scope areas and Climate change within the Annual Audit Report, and we are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that they have done. Where significant risks are identified we will make recommendations for improvement. The Annual audit reports will include conclusions which are retrospective in nature, comment on progress in implementing previous recommendations and on forward plans within aspects of the wider scope requirements.

Wider Scope arrangements

Financial Management

Scope

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Areas of Focus

• The arrangements to ensure effective systems of internal control, to ensure public money is applied within the relevant financial rules;
• the effectiveness of the budget control system to communicate accurate and timely financial performance to meet the needs of the user.
• The accuracy and embeddedness of financial forecasting within financial management and financial reporting arrangements, including achievement of financial targets;
• the arrangements taken to link budget setting, savings plans to the priorities and risks of the Board;
• The capacity and skills of the Board's finance team.

Risk Assessment

For 2023/24 financial year the Board achieved a small surplus of 8k against its Core Revenue Resource Limit. As at month 7, October 2024, the Board reported an overspend of £0.157m. Key factors contributing to this are Ward Nursing pressures, partly offset by several staffing vaccines along with Capital Charges having a backdated adjustments for deprecation.

The Board has achieved £745k of efficiency savings to date, with around £34k still to be achieved before year end. The vast majority of which are through vacancy management which is non-recurring in nature. A year-end breakeven position is forecast assuming the achievement of the remaining savings. The eight National Boards continue to work towards joint efficiencies and collaborative working.

The Board forecasts a breakeven position against its Capital Resource Limit. The most significant project in 2024/25 continues to be the Perimeter Security and Enhanced Internal Security Systems Project which commenced in 2020/21. The current (December 2024) overspend of this project is approximately £820k which has increased by around £37k since October 2024. As at February 2025 the project is still pending final site testing and completion is expected in early 25/26. The Board will hold retention on the project cost until all testing successfully completed.

Wider Scope arrangements

Financial sustainability

Scope

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

Areas of Focus

- the arrangements in place to balance any short-term financial challenges and cashflow requirements and longer term financial sustainability
- the arrangements to ensure any recovery plan is fully integrated to deliver the Boards priorities.
- the appropriateness of the arrangements put in place to address any identified funding gaps / savings plans and organisational restructures, including clarity of the impact on services to the public
- the medium to longer term capital financial plans include clear links to how capital investment will be used to deliver organisational priorities, including revenue consequences of the capital expenditure.

Risk Assessment

For 2024/25 the Board has prepared its Annual Delivery Plan for Scottish Government. The Scottish Government confirmed the national financial position for 24/25 as being under sever pressure with all boards being instructed to achieve breakeven. The State Hospital's initial budget return for 24/25 shows a saving of £1.33m, this is an increase of £0.76m from prior year. A plan is being put in placer to achieve the national target of 3% recurring savings on baseline budgets. This is challenging for TSH due to having an 84% staff budget cost against revenue budget.

Scottish Government have provided guidance for Boards to perform a self-assessment to identify immediate actions to ease financial pressures using a 15 point spending grid. TSH have identified a number of areas in Workforce and Productivity where they could focus efforts to reduce cost. For example, we have seen evidence of finance team monitoring of sickness absence and appropriate decision making on staffing in relation to agency and bank. We noted appropriate reporting on these areas through workforce committee.

Maintenance costs are forecast to increase as the facility ages however it has been noted that no additonal funding will be provided for this. The Scottish Government have confirmed that there will be no funding development costs for any new projects.

Wider Scope arrangements

Vision, Leadership and Governance

Scope

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Areas of Focus

- the vision and strategy of the Board, to ensure it includes a clear set of priorities which reflects the pace and depth of improvement that is need to realise the Boards priorities and long term sustainability of services to meet the needs of the citizens
- the governance arrangements are appropriate and operating .
- assess the level of involvement of the local communities, including seldom heard groups, and health inequalities in identifying and agreeing the Boards priorities.
- assess the evidence that demonstrates leaders are adaptive to the changing environment
- the culture of the Board and how it operates with partners to understand their roles and responsibilities to help deliver the priorities of all partners.

Risk Assessment

Our assessment was informed by a review of the Board's corporate governance arrangements, information provided to the Board and Committees, as well as the risk management arrangements.

The Board also produced its Annual Delivery Plan for 24/25 as required by Audit Scotland. The plan details the Board's recovery drivers and priorities, service sustainably along with risks and issues associated with delivery, financial balance and workforce.

Scottish government requires Boards to report progress against their Annual Delivery Plan actions every quarter using the monitoring template. As at Q2, the Board had RAG rated 7/12 of its actions as Green. The Board did however rate 3/12 of its actions as Amber, including one move from Green to Amber for performance indicator "Patients will undertake 150 minutes of moderate exercise each week". The key risks being "Patients will have a healthier BMI" and "Sickness absence rate" both remaining Red.

Wider Scope arrangements

Use of Resources to Improve Outcomes

Scope

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Areas of Focus

• the arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered

• the arrangements in place to assess whether outcomes are improving based on the trend and relative to pace of change in comparable organisations, and appropriate to the risk and challenges facing the Board

• the arrangements in place to consider cost of delivery of current services and whether alternative models of service delivery been considered.

• the arrangements to evaluate service delivery and quality and whether the user needs and views are included in any such evaluation.

Risk Assessment

The Board has various arrangements in place to monitor performance. Financial performance is reviewed through Board, Finance committee and audit committee. The monitoring of non-financial performance is through Board KPI's, Clinical Governance, overspend.

As at 31 October 2024 the financial position was sitting at an overspend of £0.157m with nursing costs remaining the key factor. However, the forecast for the year remains for a breakeven position to be achieved as savings are on track for target.

For non-financial performance, the 12 KPI's used by the Board are RAG rated. The KPIs that were off the target (>5%) during 2024/25 were:

- Patients have their care and treatment plans reviewed at 6 monthly intervals
- Patients will undertake 150 minutes of moderate exercise ach week
- Patients will have a healthier BMI
- Sickness absence rate
- Patients have their clinical risk assessment revied annually

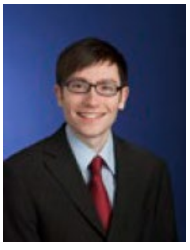
Appendices

Mandatory communications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our engagement letter communicates our responsibilities to form and express 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.
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our engagement letter dated communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – wider scope	Our wider scope slide on page 16 onward sets out our responsibilities for reporting on the Board's arrangements for the 4 wider scope areas. No significant wider scope risks have been identified.
Independence	Our independence confirmation on page discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Audit team and rotation

Your audit team has been drawn from our specialist healthcare audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

	Michael Wilkie is the Partner responsible for our audit. He will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.
	John Blewett is the manager responsible for our audit. He will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and use of funds work.
	Stacey McKay is the in-charge responsible for our audit. She will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

This will be Michael's 3rd year as your engagement lead. He can therefore complete a further 7 years before rotation. Audit Scotland will tender provision of audit services after 2 years.

Audit Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2023-24. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

— Auditor remuneration, pooled costs, contribution to Audit Scotland costs, sectoral adjustment

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit. We are in discussions with management regarding the auditor remuneration for 2024-25. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise including any requirement to consider accounting for, or auditing grants, we will discuss with management the impact of this on our proposed fee. The following table summarises the expected fee determined by Audit Scotland which can be subject to variation based on discussion and agreement between auditor and audited body. We will discuss such variation with management in respect of first year audit procedures.

Entity	Inc VAT 2024/25	2023/24
Auditor Remuneration	£70,610	£67,760
Pooled Costs	£7,329	£8,190
Audit Support		
Sectoral Cap Adjustment	(£12,470)	(£11,740)
TOTAL Fees	£65,460	£64,210

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Board’s audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of the NHS State Hospital Board.

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Confirmation of Independence (continued)

We have considered the fees charged for audit professional services during the reporting period. Total fees charged by Audit Scotland are:

	2024/25	2023/24
	£'000	£'000
Audit of Board	£65	£64
Total audit	**£65**	**£64**
Total non-audit services	£0	£0
Total Fees	**£65**	**£64**

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Compliance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

Adopt sound accounting policies.

With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.

Establish proper tone/culture/ethics.

Require periodic confirmation by employees of their responsibilities.

Take appropriate action in response to actual, suspected or alleged fraud.

Disclose to Audit Committee and auditors:

- Any significant deficiencies in internal controls; and
- Any fraud involving those with a significant role in internal controls

KPMG's identification of fraud risk factors

Review of accounting policies.

Results of analytical procedures.

Procedures to identify fraud risk factors.

Discussion amongst engagement personnel.

Enquiries of management, Audit Committee, and others.

Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

Accounting policy assessment.

Evaluate design of mitigating controls.

Test effectiveness of controls.

Address management override of controls.

Perform substantive audit procedures.

Evaluate all audit evidence.

Communicate to Audit Committee and management.

KPMG's identified fraud risk factors

— Whilst we consider the risk of fraud at the financial statement level to be low for the Board, we will remain alert to the following areas throughout the year and adapt our audit approach accordingly:
— Cash;
— Procurement;
— Management control override; and
— Assessment of the impact of identified fraud.

Audit Outputs

Output	Description	Report date
Annual Audit Plan	Our strategy for the external audit of the Board including significant risk and other audit areas.	By 31 March 2025
Independent auditor’s report	This report will contain our opinion on the financial statements, the audited part of the remuneration and staff report, governance statement and performance report.	By 30 June 2025
Annual audit report	We summarise our findings from our work during the year.	By 20 June 2025
Assurance statement on consolidation schedules		By 30 June 2025

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of management
Financial Statements
Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: — preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; — maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; — ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council; — maintaining proper accounting records; and — preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions. Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of management
Prevention and detection of fraud and irregularities
Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Corporate governance arrangements
Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.
Financial position
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: — such financial monitoring and reporting arrangements as may be specified; — compliance with any statutory financial requirements and achievement of financial targets; — balances and reserves, including strategies about levels and their future use; — how they plan to deal with uncertainty in the medium and longer term; and — the impact of planned future policies and foreseeable developments on their financial position.
Best Value, use of resources and performance
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:
— undertake statutory duties, and comply with professional engagement and ethical standards;
— provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
— review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
— notify the Auditor General when circumstances indicate that a statutory report may be required;
— participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
— demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  — effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  — suitability and effectiveness of corporate governance arrangements; and
  — financial position and arrangements for securing financial sustainability.
Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

Audit Scotland code of audit practice – responsibility of auditors and management

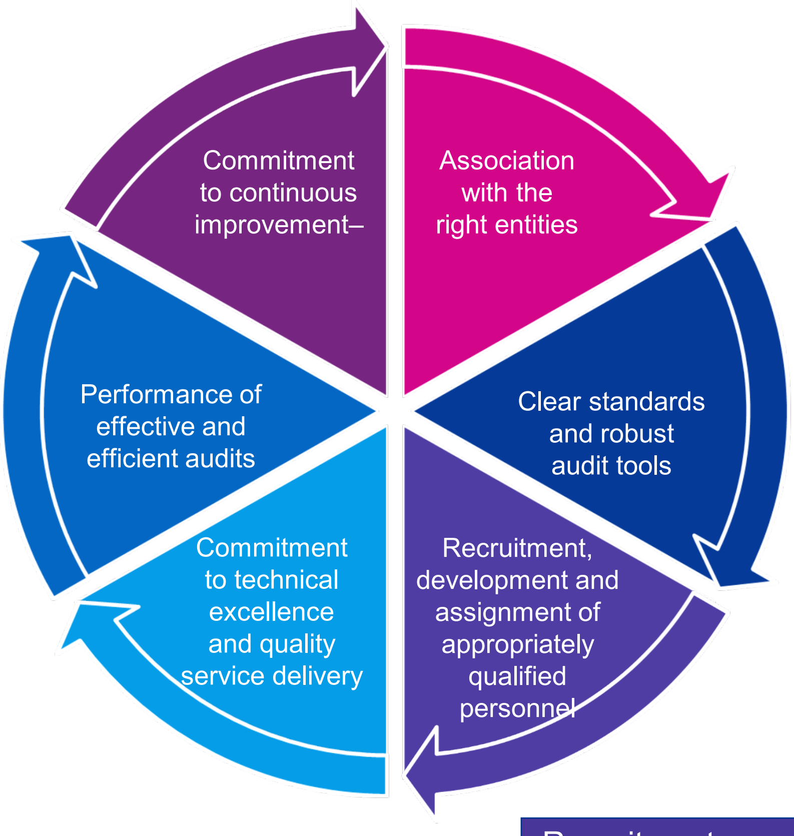
Responsibilities of auditors
General principles
This Code is designed such that adherence to it will result in an audit that exhibits these principles.
Independent
When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour. Our independence confirmation letter (**Appendix four**) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.
Proportionate and risk based
Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self - evaluation evidence when assessing and identifying audit risk.
Quality focused
Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
Coordinated and integrated
It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.
Public focussed
The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.
Transparent
Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.
Adds value
It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement w here significant risks are identified.

KPMG's Audit Quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.



- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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