NHS Orkney

Annual Audit Report to the Board and the Auditor General for Scotland

30 June 2025

Key contacts

Your key contacts in connection with this report are:

Rashpal Khangura
Director
Tel: 07876 392195
Rashpal.Khangura@kpmg.co.uk

Taimoor Alam
Manager
Tel: 07731 348596
Taimoor.alam@kpmg.co.uk

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Introduction

To the Audit Committee of NHS Orkney

We were pleased to have the opportunity to meet with you on 26 June 2025 to discuss the results of our audit of the consolidated financial statements of NHS Orkney (the 'Board'), as at and for the year ended 31 March 2025.

We provided this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 4 March 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is complete.

Please refer to pages 6 and 7 for the details in relation changes since our audit plan.

We are intending to issue an unmodified Auditor's Report on the consolidated financial statements.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours sincerely,

Rashpal Khangura

30 June 2025

How we have delivered 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. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as beingthe 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**.

Audit Scotland (AS) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Board.

External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Important notice

Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of NHS Orkney (the 'Board'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Annual Accounts Manual, as at and for the year ended 31 March 2025. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

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 NHS Orkney 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.

Status of our audit

Our audit is complete.

Materiality Group and Board

Total expenditure (2023/24)

£132m

(2023/23: £123m)

Materiality

£2.5m

1.9% of expenditure

(2023/24: £2.5m, 2% of expenditure)

Misstatements reported to the Audit and Risk Committee (2023/24: £125k)

Procedure designed to detect individual errors at this level (2023/24: £1.87m)

Materiality for the financial statements as a whole (2023/24: £2.5m)

Our materiality levels

We determined materiality for the consolidated 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 gross expenditure (as reported in 2023/24) which we consider to be appropriate as it reflects the scale of the Board's services, and we consider this most clearly reflects the interests of users of the Board'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 £1.62m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons. Actual amount, for 2024/25, of relevant benchmarks i.e. total expenditure and total assets amounted to £141m and £109m respectively resulting in determined materiality amounting to 1.8% and 2.3% respectively.

Group materiality vs other metrics

	2024/25	2023/24
Total assets	2.4%	2.5%

Our audit findings

Audit risks	Risk Change	Findings (Pages 8-12)
Fraud risk from expenditure recognition (significant)	No change	We have not identified any issues based on our work performed.
Management override of controls (significant)	No Change	We have not identified any instances of management override of controls based on our work performed.
Valuation of Land & Buildings (other)	Risk rating decreased from significant to other risk (Page 11).	We have not identified any issues based on our work performed.

Key accounting estimates	Judgement	Findings (Page 13)
Valuation of Land & Buildings	Neutral	We have not identified any issues based on our work performed.

Wider scope (Pages 16-23)
Under the Code of Audit Practice we are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit. We are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that we have done. Where significant risks are identified we will make recommendations for improvement.

Consolidation schedules (Page 15)
We intend to issue an unqualified Group Audit Assurance Certificate to Audit Scotland regarding the Consolidation schedules submission, made through the submission of the summarisation schedules to Scottish Government.

Our audit findings

Key changes to our audit plan

Risk	Effect on audit plan	Effect on approach
In the audit plan we had the significant risk below. However, for the reasons identified in the next column we have no longer assessed this as a significant risk. **Risk reported in the Audit Plan:** 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 £89.3 million. All land and buildings underwent full revaluation by an independent valuer, Gerald Eve, as at 31 March 2023 on the basis of fair value (market value or depreciated replacement costs where appropriate). The net impact was an increase of £20.737 million.	The risk is no longer considered significant due to the following factors: -The revaluation was only a desktop revaluation; -There has not been a significant level of capital expenditure spent on the assets subject to the revaluation; -The Board is using its assets base (subject to the desktop revaluation) in the same operational method and therefore have been no changes in floor area or the basis of valuation of these assets; and -The Board's asset base consists of mainly assets valued on a DRC basis and BICs indexes have not increased significantly and we note the revaluation was only £4.8m. .	We have completed procedures to address the risk of material misstatement to the carrying amount of revalued land and buildings. We have reported the work we have completed to address the risk on page 11, but we note this is not reported as a significant risk

Number of Control deficiencies	Pages 27-32
Significant control deficiencies	0
Other control deficiencies (including prior year outstanding)	3
Prior year control deficiencies remediated	3

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 completely identified and recorded

As achieving a breakeven position along with target savings 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 target position has been met.

The Board set a deficit plan for 2024/25, therefore whilst it was not aiming to breakeven it was measuring performance against a deficit plan which included savings to be achieved to meet that plan. During there year the Board has been experiencing year to date pressures but was forecasting to meet the deficit plan.

The setting of a savings target can create an incentive/pressure for the management to understate the level of non-pay expenditure compared to that which has been incurred.

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.

Our response

- We evaluated the design and implementation of the controls in place for manual expenditure accruals;
- We inspected 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 selected a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accrual has been completely recorded;
- We inspected 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;
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2024 and considered the impact on our assessment of the accruals at 31 March 2025. We also compared the items that were accrued at 31 March 2024 to those accrued at 31 March 2025 in order to assess whether any items of expenditure not accrued for as at 31 March 2025 have been done so appropriately; and
- We carried out testing over unrecorded liability testing in which we have reviewed bank statements after the period-end for any expenditure that should have been recognised in year.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Significant audit risk

Findings

- We did not identify any unrecognised expenditure that should have been recognised in 2024-25, based on inspection of sample of expenditure transactions in the period around 31 March 2025.
- We did not identify any exceptions based on testing of a sample of the year end accruals.
- We did not identify any unusual journal entries meeting our high-risk criteria of reducing expenditure.
- We did not identify any exceptions in relation to the completeness of accruals based on the retrospective review and trend analysis of accruals.
- We did not identify any unrecorded expenditure/liability based on the unrecorded liability testing.
- Auditing Standards require, where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the significant risk. We have not identified such MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. However, the management has a number of processes as part of the annual financial reporting process and considers these arrangements sufficient to address the risk they face. Thus, we have not raised a recommendation in relation to this matter.

Audit risks and our audit approach

Management override of controls

Significant audit risk

The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation and, where appropriate, tested the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate;
- We analysed all journals through the year and focused our testing on those with a higher risk;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We reviewed the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual; and
- We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements.

Our findings

- We identified journal entries and other adjustments meeting our high-risk criteria and have not identified any issues based on our examination.
- We evaluated accounting estimates and did not identify any indicators of management bias. See page 13 for further discussion.
- We did not identify any significant unusual transactions.
- We did not identify any issues from our related parties testing. We have followed up on prior year control recommendation around the process to ensure completeness of identified related partis and associated transactions.
- We have followed up on prior year control recommendation in relation to segregation of duties with respect to processing of journals and we note that, from inquiry of management and our journals walkthrough, we identified that the users of the general ledger have the ability to post and approve their own journals within their own authorisation limits. There is a risk that there is no segregation of duties. Whilst senior members of the finance team may perform review of journals, this is not fully documented within the system. See page 29 (Recommendations)

Cautious Neutral Optimistic

Audit risks and our audit approach

Valuation of land and buildings

Other 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 31March 2024 was £89.3 million.

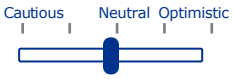
All land and buildings underwent full revaluation by an independent valuer, Gerald Eve, as at 31 March 2023 on the basis of fair value (market value or depreciated replacement costs where appropriate). The net impact was an increase of £20.737 million.

Please refer to page 7 for details in relation to change of this risk since the audit plan was produced.

Our response

We performed the following procedures:

- We critically assessed the independence, objectivity and expertise of Gerald Eve, the valuers used in developing the valuation of the Board's properties as at 31 March 2025;
- We inspected the correspondence with 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);
- We assessed the correspondence with the valuers in relation to the development of the valuation;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged 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 performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the FReM;



Audit risks and our audit approach

Valuation of land and buildings

Our response (continued)

- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the FReM;
- We reviewed the output prepared by the Board's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

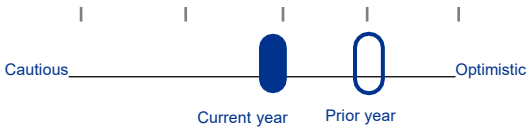
Our findings

We have no findings from our work.

NHS Orkney

Key accounting estimates – Overview

Our view of management judgement



Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions. Cautious means a smaller asset or bigger liability; optimistic is the reverse.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Assets Valuation of land & buildings	Cautious – Neutral – Optimistic	92.02	2.36	Needs improvement – Neutral – Best practice	Assumptions were found to be neutral.

Other estimates

We have also reviewed the following non-significant estimates as part of our audit work

- Depreciation
- Clinical and Medical provision and Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) provision

Group involvement – significant component audits

Involvement in group components

The Group financial statements are made up of the following components:

- NHS Orkney (parent)
- Orkney Health Board Endowment Funds (Subsidiary)
- Orkney Integrated Joint Board (Joint Venture)

As communicated in our audit plan we determined that the parent Board was the only significant component. We have performed risk assessment procedures over the remaining components in order to confirm that there were not material balances within the other entities that could cause a material error and did not identify any exceptions.

We did not identify any errors as a result of the procedures set out above.

Other significant matters

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the Annual Accounting Manual. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Board's performance, business model and strategy;
- The parts of the Remuneration Report that are required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance; and
- The report of the Audit and Risk Committee included in the Annual Report includes the content expected to be disclosed as set out in the Annual Accounting Manual and was consistent with our knowledge of the work of the Committee during the year.

Consolidation schedules

As required by the Audit Code of Practice we are required to provide a statement on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have completed that work and found no matters to report.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

The fee for the audit was £98,830 in 2024/25 and £96,940 in 2023/24 (Source: Audit Scotland). We have not completed any non-audit work at the Board during the year.

National Fraud Initiative

We reviewed the Board's participation in the National Fraud Initiative exercise, inspecting the NFI dashboard where potential issues are flagged for Boards to investigate. The NFI dashboard highlighted progress being made with respect to the matches as at March 2025.

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 new Code of Audit Practice brought in from 2022/23 has refreshed the areas used to define the wider audit scope. The previous 2016 edition set out four areas (described as audit dimensions), i.e. financial management, financial sustainability, governance and transparency, and value for money.

The new Code no longer uses the term audit dimensions, but it retains the areas of financial management and financial sustainability (though redefines each area) and replaces the other two as follows:

- governance and transparency dimension has been replaced with vision, leadership and governance area
- value for money dimension has been replaced with use of resources to improve outcomes.

Commentary on arrangements

We have prepared our commentary on the Board's Wider Scope arrangements within this report.

- Financial Management – Page 17;
- Financial Sustainability – Page 19;
- Vision, Leadership and Governance – Page 21; and
- Use of Resources to Improve Outcomes – Page 23

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; and
• the capacity and skills of the Board's finance team.

Findings

Context

During the year 2023/24, NHS Orkney was moved from level one to three of the NHS Scotland Support and Intervention Framework, which is the first stage of formal escalation, due to significant deviation from the organisation's Financial Plan for 2023/24. This has meant the Board has received enhanced national monitoring and support. This position has remained the same during 2024/25.

Financial performance

NHS Orkney commenced the 2024/25 financial period with a planned full year deficit of £5.8 million, which was submitted to Scottish Government in April 2024. The Board reported that it was on-track to deliver the plan all year. In February 2025, additional funding was received by the Board which resulted in a final out-turn of £3.874m. The Board has received £3.874m of repayable brokerage from Scottish Government to support the overspend during 2024/25 resulting in a balanced position being reported within the Accounts. The total amount of brokerage repayable by the Board to the Scottish Government, on the Board returning to financial balance, now amounts to £9 million. As part of our audit, we have seen evidence of budget monitoring in relation to financial targets through presentation of financial performance reports to the Board on a periodic basis.

Savings performance

The Board was required to deliver £4.0m of efficiency savings during 2024/25 to achieve the £5.8m deficit plan. Total savings of £4.07m have been recorded during the year. £2.88m (71%) of these savings were delivered on a recurrent basis, with £1.19m (29%) delivered on a non-recurrent basis.

Wider Scope arrangements

Financial Management

Savings performance (continued)

As part of our previous year reporting, we had noted that the Board has replaced its Grip and Control arrangements which it implemented for 2023/24 and replaced these with new arrangements including the Improving Efficiency Together arrangements. The Board continued to operate these arrangements throughout 2024/25. We have seen evidence of regular reporting to the Board in relation to the progress being made under these arrangements.

Finance team capacity

A rapid review of the finance team was carried out in February 2024 following NHS Orkney's escalation to level three of the NHS Scotland Support and Intervention Framework which requires 'significantly enhanced' support and scrutiny of operations and performance. A number of recommendations were noted based on the review which included:

- Consideration of a re-structure of the finance team. Re-structure to include benchmarking the size, grades and responsibilities of team with a similar organisation.
- Investment in training and development across the finance team.

In the previous year we reported that the Board had paused implementing these until later into the financial year. During the current year progress has been made in relation to the above resulting in a Finance Improvement Implementation Plan being presented to the Finance and Performance Committee dated 27 March 2025.

Conclusions

We are satisfied the Board's financial monitoring and reporting arrangements are adequate as an accurate financial position has been identified and reported during the year.

The Board continues to implement and embed changes to its arrangements regarding financial management.

The Board has recognised capacity issues within the finance team and implemented a review. It needs to continue implementation of actions to address the findings.

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 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 degree to which 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.

Findings

Historical performance

In the Financial Management section of this report, we identified the Board had an overspend of £3.874m, which was met through additional funding from Scottish Government to enable the Board to breakeven. However, unlike previous years this was planned additional funding. Furthermore, the actual amount of planned additional funding was less than the originally planned amount of £5.8 million.

Financial plan 2025/26

The financial budget for 2025/26 was included in the three-year financial plan submitted to the Scottish Government in March 2025.

The Board approved and submitted a final deficit financial plan of £3.1m for 2025/26, excluding any brokerage support. The plan outlines the total deficit before savings of £6.4 million for 2025/26. A savings target of £3.5 million has been included for 2025/26 in the financial plan.

Savings plans for 2025/26

As part of the three-year financial plan, the Board has identified indicative schemes to support the savings target amounting to £3.5 million out of which £2.5m are identified as being recurrent in nature. The major scheme identified relates to workforce amounting to £1.2 million and planned to be recurring in nature. This is aimed to be achieved through continuing efficiencies in workforce including admin and clinical review, targeted sickness absence reduction, agency and overtime reduction, recruitment and retention, and exploring more cost-effective agency commission rates

Wider Scope arrangements

Financial sustainability

Following the updates to the originally approved financial plan, as noted below, the savings target for 2025/26 has been increased from £3.5 million to £3.8 million with £2.8 million being recurrent in nature. Savings of £2.7m have been identified for 2025/26 and there are pipeline opportunities currently being assessed to close the remaining gap and further build mitigation resilience. The delivery of the £2.7m has been risk assessed and 48% are considered low risk, 24% as medium risk and 28% as high risk.

Three year financial plan

The three-year financial plan highlights a cumulative deficit amounting to £13.9 million. The plan further proposes cumulative savings amounting to £12 million resulting in a cumulative financial deficit, after the proposed savings, amounting to £1.7 million. The Board approved the financial plan in March 2025.

Updates to the three year financial plan

Scottish Government reviewed the plan submitted as above and provided feedback on the contents and the proposed financial out-turns over the period 2025-2028. The financial plan was approved along with an allocation of non-recurring transitional funding support to achieve financial balance over a 4-year period, amounting to £5 million.

Based on above, the financial plan has been extended to a 4 years and assumes return to financial balance by the end of this period. The updated financial plan requires cumulative savings amounting to £16.5 million out of which £12.55 million is required on a recurrent basis.

Conclusions

Based on historical performance the Board has had weaknesses in its arrangements to achieve financial sustainability. Although the approved final plan includes additional transitional funding amounting to £5 million and assumes return to financial balance by the end of the 4 year financial plan, there are challenges to achieve the same i.e. ability to deliver on savings on a recurrent basis.

Furthermore, the transitional funding , although not repayable, is subject to the achievement of the following conditions:

- An outturn of under 1% deficit against core RRL must be delivered in 2025-26.
- Financial balance must be reached by 2028-29 at the latest.

The implementation of the identified savings as well as development of un-identified savings plan represents a significant challenge, and despite there being schemes planned for 2025/26 there is a potential risk that the planned savings will not be achieved due to the current pressures faced by the Board.

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, including where delivered through ALEO's

Findings

Corporate Strategy

A new corporate strategy for 2024-28 was presented to the Board for approval in April 2024, following which it has been published on the Board's website for public access. 5 strategic objectives have been identified as part of the corporate strategy which includes:

- People;
- Patient safety, quality and care
- Performance
- Potential; and
- Place

The corporate strategy further identifies metrices for delivery against each of the strategic objectives identified in the corporate strategy.

We noted that the development of the corporate strategy was informed by consultation and engagement which included consultation with community and staff.

Wider Scope arrangements

Vision, Leadership and Governance

Findings

We further noted, based on the update provided to the Board dated 25th April 2024, that further work was underway to build the new strategic objectives into the governance and assurance systems. This included development of new Board Assurance and Risk Management framework, alignment of the integrated performance reporting to new strategic objectives and development of the underlying workplans.

In September 2024, the Board introduced a new Performance Management Framework which underpins our Board Assurance Framework.

The Board agreed the new Board Assurance Framework in December 2024, which provides the Board with a way of monitoring risks associated with the achievement of strategic objectives which are set out in the Corporate Strategy.

A report titled Corporate Strategies Priorities – Year 2 (2025/26) was presented to the Board dated 24 April 2025. The purpose of the report was to receive and approve the Year 2 Corporate Strategy High Level Priorities and Key Performance Indicators/metrics for delivery in 2025/26.

Risk register

An updated risk register has been approved by the Board and published on the website for public access. We also noted evidence of updates being provided to the Board in relation to the status of risk register as part of periodic Board meetings.

Internal Audit

We have noted evidence of operation of an internal audit function with regular updates to the audit and risk committee in relation to progress reporting against the approved internal audit plan and status of recommendations from the internal audit.

Conclusion

We have not identified any significant risks or significant weaknesses relating to vision, leadership and governance.

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.

Findings

A new integrated performance reporting system was introduced from October 2023 to strengthen the reporting and governance process.

Integrated Performance Reports were produced and reported to Board which shows that performance is being reported and monitored.

We noted the integrated performance report (IPR) makes use of quantitative and qualitative data and expands on the noted trends through commentary to as well as external benchmarking to provide a basis for informed decision making.

We noted that an end-to-end review of the IPR has been commissioned to plan for the year ahead to ensure that latest and most timely data is presented to the Board Committees routinely.

A schedule, for the production, of the IPR has been produced to ensure that with effect from Quarter 1 of 2025/26, Board Committees routinely receive and scrutinise the IPR ahead of it being brought to the Board for assurance.

Best Value

Measures taken under this category feed into the statutory duty in relation to maintaining arrangements to secure best value.

Conclusion

We have not identified any significant risks or significant weaknesses relating to use of resources to improve outcomes.

Appendices

Appendix one

Mandatory communications

Type		Statement
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
Adjusted audit differences		Appendix 3 identifies the adjusted audit differences.
Unadjusted audit differences		No unadjusted audit differences
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties apart from the prior year recommendation on page 30.
Other matters warranting attention by the Audit and Risk Committee		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies		We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts		No actual or suspected fraud involving group management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Appendix one

Mandatory communications

Type		Statement
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		None.
Disagreements with management or scope limitations		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information		No material inconsistencies were identified relating to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the Annual Reporting Manual.
Breaches of independence		No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices		Over the course of our audit, we have evaluated the appropriateness of the Board's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management		The significant matters arising from the audit were discussed, or subject to correspondence, with management.
Provide a statement to AS on your consolidation schedule		We will issue our report to Audit Scotland following the signing of the annual report and accounts.

Appendix two

Recommendations raised and followed up

We have followed up the recommendations raised in the prior years. Below is a table of the actions and implementation.

Priority rating for recommendations					
1	**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Total number of recommendations	Number of recommendations implemented or superseded with new recommendations	Number outstanding :
6	3	3

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date/Status
1	2	The Scottish Government Clinical Prioritisation Framework performance is monitored through returns to the Scottish Government. Those charged with governance do not regularly see the returns. Risk – There is a risk that key performance issues are not subject to appropriate scrutiny. Recommendation In order to improve transparency over performance the monitoring information on the clinical prioritisation framework should be periodically presented to the appropriate committee.	**Agreed:** To be captured as part of NHS Orkney's Annual Delivery Plan for 2023/24. **Status 17 June 2025:** Closed

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	2	**Accounts preparation - Issue** As per the year end timetable, we were anticipating receiving the financial statements on 7 May 24. however, we did not receive a version of the financial statements that mapped to a trial balance and full transaction list until a later date. Following this there were number of version updates. We further note that the financial statements required further updates to be aligned to the latest annual accounts manual and template. Although we do recognise management have struggled with capacity due to absences in the Finance Team. **Risk** There is a risk that the deadline for submitting signed annual report and accounts is not met due to delays in receiving information. **Recommendation** We recommend that management revisit its accounts preparation plan in advance for 2024/25 to ensure arrangements are updated, including revising timelines (if required) to ensure its accounts preparation plan is appropriate. We recommend this is completed in-conjunction with reviewing external audit working paper requirements therefore enabling the audit to start on a more timely basis.	As indicated, the Board have had significant leadership and capacity constraints in the finance team during the production of the annual accounts. It should also be noted that whilst there were some minor delays to the timetable, this was primarily due to issues outside of the team's control including delays to allocations and other external support required to address issues with submission templates. We do acknowledge however that further internal improvements can be made which will be addressed and included within the accounts timetable and planning process for future years. **Status 17 June 2025:** Implemented

Appendix two

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
3	2	**Journals segregation of duties - Issue** From inquiry of management and our journals walkthrough we identified that users of the general ledger have the ability to post and approve their own journals within their own authorisation limits. **Risk** There is a risk that there is no segregation of duties. Whilst senior members of the finance team may perform review of journals, this is not fully documented. **Recommendation** We recommend that management implement a fully documented review of any journals posted and approved by the same user.	We acknowledge the recommendation. It should be noted however that this is partly linked to the leadership and capacity constraints within the team and also the challenges of working within a very small Island Board finance team. However, we will review this with the aim of introducing a streamlined process to ensure segregation of duties and appropriate authorisation levels. **Status 17 June 2025:** Not implemented for 2024/25. A new process has been put in place from the financial year 2025/26.

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
4	2	**Related parties** Auditing standards require us to obtain an understanding of related party processes and controls that: • identify all related parties, relationships and transactions • authorize and approve significant related party transactions and arrangements; and • account for and disclose all related party relationships and transactions in the financial statements. We are satisfied management have a process in place to request related parties through receipt of declarations of interest (DoI) from all members of the Board, and then an exercise is carried out where by finance search all the ledger to identify transactions with said related parties at the year end. The Board consider its existing controls to authorise and approve all significant related party transactions be proportionate to the address the associated risk. These transactions continue to be closely scrutinised, albeit retrospectively, and corrective actions will be implemented if deemed appropriate. However, with respect of identifying related parties and transactions, management did not undertake the search on the AP/AR ledger until after the year end, increasing the risk of incomplete disclosure. In addition, management does not carry out a completeness check which verifies all interests have been declared. **Recommendation** We recommend the search on the AP/AR ledger should take place before the audit fieldwork commences. In addition, management should search all Board members (including close family and dependents) on Companies House at the year end to ensure completeness of the declarations made. .	We acknowledge the recommendation and will build this into the workplan and the future annual accounts timetable. **Status 17 June 2025:** Partially implemented. Management will consider incorporation of completeness checks, with reference to Companies House, as part of the checks carried out by the relevant team responsible for the maintenance of the register of interests.

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
5	❶	**Wider Scopes – Financial management and sustainability** Our work in relation to wider scopes has identified significant weaknesses in the Board's arrangements to achieve in year financial balance without unplanned financial support from Scottish Government. Further to this, based on historical performance the Board has a significant weaknesses in its arrangements to achieve financial sustainability. These weaknesses are also apparent in its three year plan, where there is a cumulative deficit amounting to £16.3m after proposed savings. Without further savings the Board is not financially sustainable. We recognise during the course of the financial year the Board has implemented changes to its arrangements regarding financial management with the support provided from it being escalated to level three of the NHS Scotland Support and Intervention Framework The Board now need to embed these arrangements taking appropriate actions where arrangements are not delivering the desired outcome in a timely manner. **Recommendation** The Board now need to embed the changes it has introduced to its financial management/sustainability arrangements taking appropriate actions where arrangements are not delivering the desired outcome in a timely manner. .	The Board will ensure the changes and improvement programme are embedded across the organisation taking appropriate actions where arrangements are not delivering the desired outcome in a timely manner. **Status 17 June 2025:** The Board did not require any unplanned financial support from Scottish Government for 2024/25. However, the implementation of the identified savings as well as development of un-identified savings plan continue to represent a significant challenge, and despite there being schemes planned for 2025/26 there is a potential risk that the planned savings will not be achieved due to the current pressures faced by the Board.

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
6	2	**Wider scopes – Financial Management** The Board has carried out a rapid review of the finance team following the Board's escalation to level three of the NHS Scotland Support and Intervention Framework. The review has identified a number of recommendations. We understand the Board has paused implementing these until later into the financial year. **Recommendation** The Board should consider the recommendations made in the rapid review and implement where appropriate to address the issues identified in the rapid review.	This improvement programme and associated action plan will be developed from quarter 1 of the 2024/25 financial year with a clear prioritisation, timescale and resource plan. Progress and assurance of the improvement programme will be shared with the Boards Finance and Performance Committee throughout the year **Status 17 June 2025:** Implemented

Appendix three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of **unadjusted audit differences** (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Risk Committee, details of all adjustments greater than £125k will be communicated.

We have not identified any unadjusted audit differences.

Under UK auditing standards (ISA (UK) 260) we are also required to provide the Audit and Risk Committee with a summary of **adjusted audit differences** (including disclosures) identified during the course of our audit.

We also identified a number of disclosure adjustments, which were adjusted. The most significant of which are as follows:

- Updates to disclosures in the performance report relating to financial performance, payment policy and sustainability and the environment to align with the requirements of the annual accounts manual.
- Updates to disclosure in the accountability report relating to fair pay to align with the requirements of the annual accounts manual.
- Inconsistencies in the accounting policies description as compared to the latest annual accounts manual and templates.
- Updates to a small number of figures in the audited parts of the remuneration report, in particular the Median (total pay and benefits) percentage change was updated from 16% to 18%, narrative updates to the information in relation to exit packages and the values of opening CETV and the real increase in CETV in the pensions table.
- Updates in the nature of internal consistency and prior year comparatives.

Intra-group error reporting

We are also required to report any identified errors in the reporting of intra-group balances with other NHS entities exceeding £200,000 as part of our reporting on the Consolidation Schedules to Audit Scotland.

We have identified no inconsistencies on our report on the Consolidation Schedules.

Appendix four

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 Director and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of the NHS Orkney.

Professional ethical standards require us to provide to you with 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 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.

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

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not provided any non-audit services in year.

Appendix four

Confirmation of Independence (continued)

We have considered the fees charged to the Board for professional services provided during the reporting period. Total fees charged can be analysed as follows:

Entity	2023/24	2023/24*
Auditor Remuneration **	£114,040	£109,440
Pooled Costs	£11,820	£13,230
Contribution to PABV cost	-	-
Sectoral Cap Adjustment	-£27,030	-£25,730
TOTAL AUDIT FEES (Incl VAT)	**£98,830**	**£96,940**

*Overruns amounting to £5,967 were agreed in relation to 2023/24 audit.

Source: Audit Scotland

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

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

Appendix five

KPMG's Auditquality framework

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.

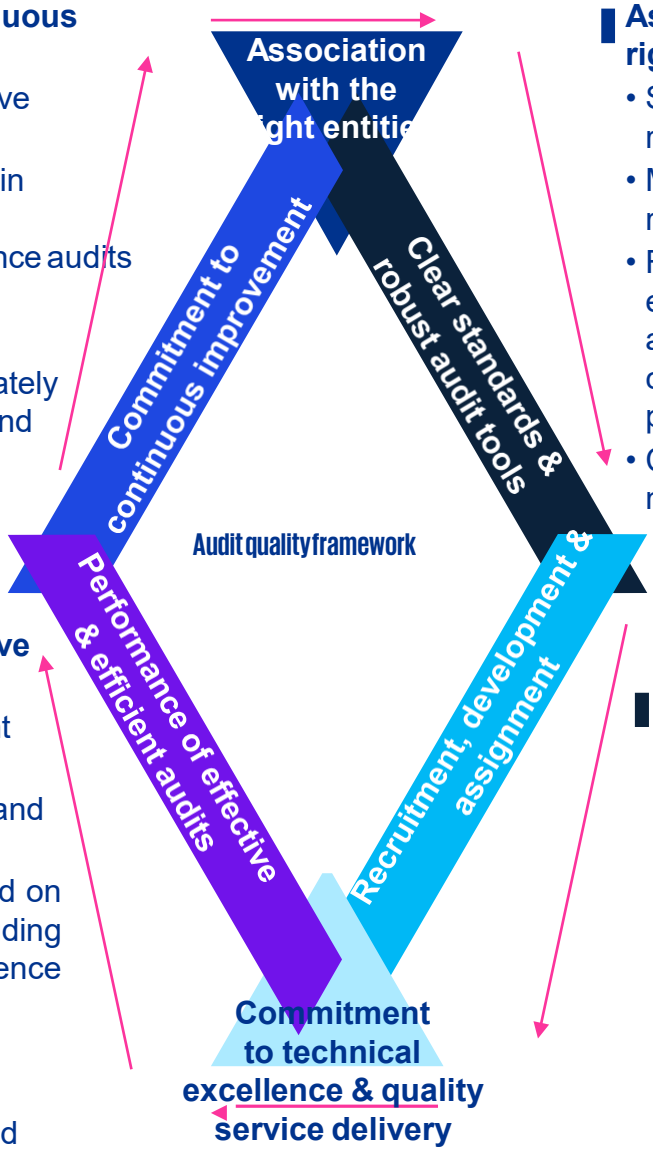
- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

- 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

Association with the right entities

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



Performance of effective & efficient audits

- 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

Clear standards & robust audit tools

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

Commitment to technical excellence & quality service delivery

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

Recruitment, development & assignment of appropriately qualified personnel

- 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 employed KPMG specialists and specific team members

Appendix six

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2023/24 ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematics identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Appendix six

FRC's areas of focus

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

Appendix six

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in it's current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the 'Offsetting in the financial statements' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

Appendix six

FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

Appendix seven

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In 2021, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Impact on the audit

Ineffective or informal IT processes and controls impact audits detrimentally as it can override other elements of a control environment due to the introduction of the risk of override due to both fraud and error.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

To meet the on-going requirements of the standard, auditors will continue to focus on risk assessment including detailed consideration of the IT environment.

Auditors consider whether entity actions to address any control observations are proportionate and have been successfully implemented. This assessment represents an ongoing audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the ~~entity~~ control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

Appendix seven

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021*) The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 6. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

Appendix seven

Changes to the FRC Ethical Standard

In early 2024, the FRC published an update to its Ethical Standard for auditors, effective from 15 December 2024 ("FRC ES 2024").

The FRC stated that its update did three main things:

- "First, the FRC has simplified the existing ethical standard and provided additional clarity in a limited number of areas to respond to helpful feedback from auditors.
- Second, the new standard takes into account recent revisions made to the international IESBA Code of Ethics. This aligns the UK with international standards and helps to ensure high standards of independence and ethical behaviour are applied consistently by UK audit firms and their networks.
- Third, the FRC has added a new targeted restriction on fees from entities related by a single controlling party. This is in response to issues identified through FRC audit inspection and enforcement

In general, where the changes are for clarification or to align with the IESBA Code their impact is limited (KPMG already applies the IESBA Code (in addition to the FRC ES) in the conduct of the audit). We have, however, identified the following aspects of the changes in the FRC ES 2024 to draw to your attention:

Information technology services

The FRC ES 2024 introduces, from the IESBA Code of Ethics 2024, new guidance that storing or managing the hosting of data on behalf of an audited entity creates threats to integrity, objectivity and independence (this does not apply to data obtained in the course of an audit or a permissible non-audit service). The IESBA Code is clear that services such as acting as the only access to a financial or non-financial information system of the audited entity or providing electronic security or back-up services for the audited entity's data or records would result in the auditor assuming a management responsibility, which is prohibited. We have reviewed the services provided by KPMG member firms to the Trust and no IT services have been identified which are no longer permissible.

Appendix eight

Newly effective accounting standards and relevant IFRIC items

Standards	Effective for years beginning on or after			Early adoption permitted
	01 Jan 2025	01 Jan 2026	1 Jan 2027	
Lack of exchangeability (Amendments to IAS 21) *The Effects of Changes in Foreign Exchange Rates*	✓			✓
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures***		✓		✓
Annual Improvements to IFRS Accounting Standards – Amendments to: • IFRS 1 *First-time Adoption of International Financial Reporting Standards;* • IFRS 7 *Financial Instruments: Disclosures and it's accompanying Guidance on implementing IFRS 7*; • IFRS 9 *Financial Instruments*; • IFRS 10 *Consolidated Financial Statements*; and • IAS 7 *Statement of Cash flows*		✓		✓
IFRS 18 *Presentation and Disclosure in Financial Statements***			✓	✓
IFRS 19 *Subsidiaries without Public Accountability: Disclosures***			✓	✓
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) *	TBD*			

Appendix nine

Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

Weeks before signing Audit Opinion	-3 weeks	-2 weeks			-1 week		Completion week			Teams involved in the process
Individual day's activities		Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Audit report Reviews, Consultation										Audit Team
Final audit fieldwork										Audit Team
Review audit field work & provide points to the audit team										2nd Line of Defence
Review significant risk audit areas and challenge work performed										RI and EQCR
Review of the Audit Report										DPP Accounting & Reporting
Ensure points raised by Audit Report review are dealt with										RI and EQCR
Review Audit Committee report and draft accounts										RI and EQCR
Completion panel to discuss the draft Audit Committee report and draft accounts										Audit Risk Review Panels
KPMG Audit Committee report issued										Audit Team
Final Audit Committee										Audit Team
Ensure Audit Report review and Consultation points have been satisfactorily dealt with										Audit Team & DPP Accounting & Reporting
Final audit field work completed and signed off										Audit Team
Stand-Back review										Audit Team
Ensure all points raised are cleared										RI / EQCR / 2nd Line of Defence

Key:

- One day activity
- Activity over a period of time
- Year end
- Signing date of the Audit Report

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