NHS Grampian
Annual Audit Report

Financial year ending 31 March 2025

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

27 June 2025

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect NHS Grampian or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Audit Practice 2021). We do not accept any responsibility for any loss occasioned to any third part acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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01 Executive summary

Executive summary

This table summarises the key findings and other matters arising from the external audit of NHS Grampian and its Group and the preparation of the financial statements for the year ended 31 March 2025 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

Financial statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code') we are required to report whether, in our opinion:

- the Group and Board's financial statements give a true and fair view of the financial position of NHS Grampian and its group at 31 March 2025, and of the net expenditure of the Board for the year then ended;
- the Group and Board's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 Government Financial Reporting Manual (FReM);
- the Group and Board's financial statements and audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the Governance Statement is prepared in accordance with the FReM and NHS Scotland Manual for Accounts

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

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Our audit work was completed during May-June. Our findings are summarised on pages 10 to 34. We have identified no audit adjustments to the financial statements that have impacted on NHS Grampian and the Group's reported financial position, in the unaudited accounts.

We have identified a small number of unadjusted misstatements during the audit from our testing to date. They are individually and cumulatively well below our materiality thresholds. Management have decided not to adjust the financial statements as the misstatements are not material. The decision to not amend does not impact upon the proposed audit opinion. Audit adjustments are detailed in Appendix A.

We have also raised recommendations for management as a result of our audit work in Appendix B and C. Our follow up of recommendations from the prior year's audit are detailed in Appendix D. Eight out of 13 recommendations have been cleared with three in progress and two still open.

The previous version of this report presented to the Audit and Risk Committee had outstanding items that are now concluded. We issued an unmodified opinion on the financial statements after the Board meeting approval on 27 June 2025.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

The quality of the annual report and accounts as well as supporting working papers provided to audit were of a high quality. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and their responsiveness in completing the external audit.

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Executive summary (3)

Wider scope and best value

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider NHS Grampian's arrangements in respect of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2025 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we identified one risk in respect of financial sustainability and one risk relating to use of resources to improve outcomes.

We outline our work undertaken in response to the arrangements in place and the risks identified and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out. Since we finalised our audit planning, NHS Grampian have been moved into Stage 4 of the NHS Scotland: Support and Intervention Framework. This was in part due to significant concerns around Leadership and Governance at the health board. As a result, we have carried out additional work to gain an understanding of the concerns highlighted by NHS Scotland and other external organisations and have provided our overall assessment on NHS Grampian's approach. Based on the outcome of this work, we identified one additional potential significant risk relating to vision, leadership and governance.

Further details of the work undertaken are outlined on pages 36 to 67.

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

There remains a significant risk in respect of financial sustainability given the significant financial challenged NHS Grampian faces over the longer term. The health board are projecting a significant funding gap over the next five years (£325 million) and the health board will need to identify significant savings in order to manage the projected financial gap over the medium term.

There remains a significant risk relating to the Baird and ANCHOR capital projects which have been subject to delay. As a result of the delay, previous recommendations raised on the project remain valid, with the health board intending to address the recommendations towards the end of the project. Furthermore, we have recommended that the overall costs of the project are reported to the Board, as these have risen since the last update in April 2023.

Health Boards in Scotland have a legal duty to deliver "Best Value" in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities, and sustainable development. The Code of Audit practice requires auditors to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations. The health board have arrangements in place to meet the Best Value obligations, however these could be strengthened by completing an assessment of the arrangements against the Best Value assurance framework, with the outcome being reported to the board at the end of each financial year.

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02 Introduction

Introduction

Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to NHS Grampian and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

- Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code. Its contents have been discussed with management and will be presented to the Audit and Risk Committee on 24 June 2025 and the Board on 27 June 2025.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Responsibilities

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

Our responsibilities as independent auditors, appointed by the Auditor General for Scotland, are set out in the Public Finance and Accountability (Scotland) Act 2000, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this respect are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Audit approach

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

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

Adding value through our audit work

We aim to add value to NHS Grampian throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management, financial sustainability, risk management and performance monitoring. In so doing, we aim to help NHS Grampian promote improved standards of governance, better management and decision making, and more effective use of resources.

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Introduction (2)

Adding value through our audit work (continued)

We delivered training to the Audit and Risk Committee in September 2024 on the purpose and scope of external audit and provided detailed information on the nature of work we carry out as part of both the financial statements audit and our wider scope responsibilities.

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

We also look to bring forward audit testing where possible by performing an interim audit which was delivered in January 2025. Early testing covered property, plant and equipment opening balances, expenditure and payroll for the first eight months of the financial year. This helped provide a smooth and efficient audit process to support delivery for the year end audit.

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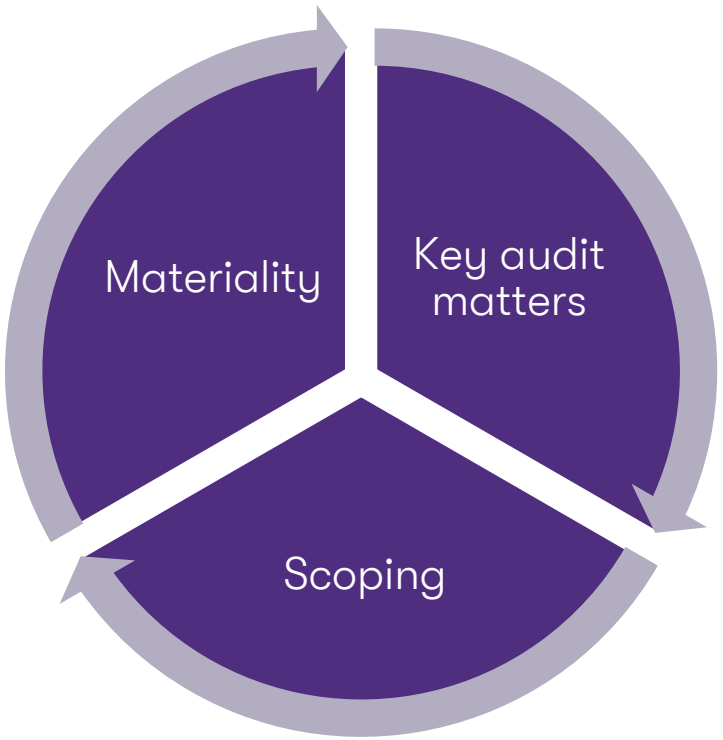
03 Audit of the annual report and accounts

Audit of the annual report and accounts

Approach to the audit of financial statements



Key audit matters and significant risks

The following significant risks/ key audit matters have been identified:

- Valuation of land and buildings (significant risk and key audit matter);
- Management override of controls (significant risk);
- Fraud in expenditure recognition (significant risk).

Internal control environment

In accordance with ISA requirements, we have developed an understanding of NHS Grampian's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

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

We have not identified any changes in our approach since our Audit Plan was presented to the Audit and Risk Committee on 11 March 2025. The risks identified remain the same.

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

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Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2024/25 draft financial statements and concluded that materiality is £33.383 million for the Group (PY £30.748 million) and £31.642 million for NHS Grampian (PY £29.277 million), which equates to approximately 1.75% for the Group (PY 1.68%) and 1.66% for NHS Grampian (PY 1.6%) of your 2024/25 gross operating costs less IJB contributions of the Group and NHS Grampian.
- Performance materiality was set at £25.037 million (Group) (PY £21.524 million) and £23.732 million (NHS Grampian) (PY £20.493 million) representing 75% of our calculated materiality (PY 70%).
- We report to Officers (Management) any difference identified over £1.000 million (Group) and £1.000 million (NHS Grampian) representing 3% of our calculated materiality (PY £1.537 million and £1.463 million respectively). NHS Grampian are consolidated into the Scottish Government group accounts and therefore this £1.000m threshold was the highest limit we could set to ensure we were aligned with the Scottish Government group audit.
- Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area of £25,000 (PY £25,000). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus on the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

There is a change in materiality values since our final audit plan was communicated to you on 11 March 2025 as final expenditure for 2024/25 was used as the basis of the calculation. The percentage chosen for higher materiality, performance materiality and triviality remains unchanged.

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Overview of the scope of our audit

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

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

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

Identifying significant components

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

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

A full scope audit was performed on NHS Grampian. Specified procedures were performed over material balances for the Endowment Funds. An analytical approach of the joint venture transactions and accounting for the IJBs was undertaken. No additional key audit matters were identified in group transactions.

Performance of our audit

The full scope audit was conducted on NHS Grampian. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes.

The specific procedures for the Endowment Funds included £51.015 million of cash / investments agreed to third party confirmations.

The analytical procedures for the consolidation of the joint ventures and associated accounting entries and reserves agreed the basis of the consolidation.

Changes in approach from the previous period

There are no additional components in the group compared to 2023/24. There are no changes from our approach noted in our Audit Plan from 11 March 2025.

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Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient, appropriate evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

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

Component	Scope - Planning	Scope - Final	Auditor	Status	Comments
NHS Grampian			Grant Thornton UK	Green	Our findings are summarised on pages 16-34.
Endowment Funds			Grant Thornton UK	Green	The audit team has performed a review of the Endowment Funds for the material cash and investment balances to third party confirmation. No issues were noted from our work performed.
Integration Joint Board (IJB) Joint Ventures			Grant Thornton UK	Green	We have not identified any issues from our analytical procedures undertaken. A late change was identified in the Aberdeen City IJB accounts which resulted in the IJB recognising a reserve at year end. The heath board's accounts have been based on the IJB retaining no reserves at year end. This is a balance sheet adjustment, and the impact is limited to Joint Ventures accounted for on an equity basis. We have reported as an unadjusted misstatement in Appendix A.

NHS Grampian	Full scope audit procedures will be performed to component materiality by the group audit team.
Endowment Funds	Audit of specified financial statement line items to component materiality by the group audit team.
IJB Joint Ventures	Out of scope components are subject to analytical procedures performed by the group audit team to group materiality.
Green	Planned procedures are substantially complete with no significant issues outstanding.
Amber	Planned procedures are ongoing / subject to review with no known significant issues.
Red	Planned procedures are incomplete and / or significant issues have been identified that require resolution.

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Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to NHS Grampian and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2024/25 HM Treasury Financial Reporting Manual (FReM).
- We enquired of Senior Officers and the Chair of the Audit and Risk Committee, concerning NHS Grampian's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of NHS Grampian and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks to journal entries that altered NHS Grampian's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the risk of fraud in income and expenditure recognition. Our audit procedures were in relation are documented within our response to the significant risk of management override of controls.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- NHS Grampian and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- NHS Grampian's control environment, including the policies and procedures implemented by NHS Grampian to ensure compliance with the requirements of the financial reporting framework.

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Overview of audit risks

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

Risk title	Risk level	Change in risk since audit plan	Fraud risk	Key audit matter	Level of judgment or estimation uncertainty	Testing approach	Status of work to date
Management override of controls	Significant	↔	✓	✓	Medium	Substantive	● Green
Valuation of land and buildings	Significant	↔	✗	✓	Low	Substantive	● Green
Completeness of expenditure and associated liabilities	Significant	↔	✓	✓	High	Substantive	● Green

↑ Assessed risk increased since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decreased since Audit Plan
● Not considered likely to result in material adjustment or change to disclosures within the financial statements
● Potential to result in material adjustment or significant change to disclosures within the financial statements
● Likely to result in material adjustment or significant change to disclosures within the financial statements.

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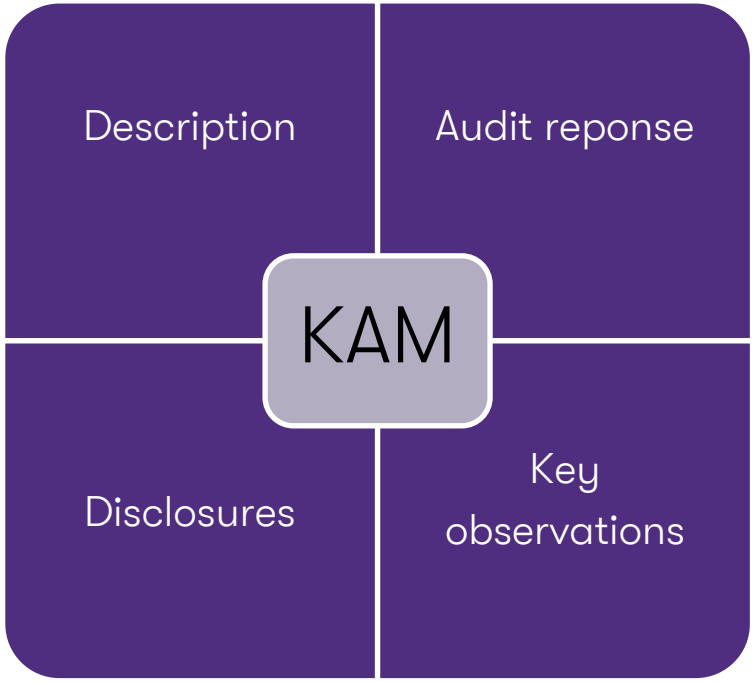
Significant risks and key audit matters



Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the external audit plan.

Key audit matters

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

These matters include those that had the greatest effect on:

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

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

Other risks

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

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Significant risks and key audit matters (2)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	Group and NHS Grampian	In response to the risk highlighted we carried out the following work: • Documented our understanding of and evaluated the design effectiveness of managements' key controls over journals. • Analysed the full journal listing for the year and used this to determine our criteria for selecting high risk journals. • Tested the high risk journals we have identified. • Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness • Gained an understanding of key accounting estimates made by management and carried out substantive testing on in scope estimates. • Evaluated the rational for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion** Our work has not identified any material issues in relation to management override of controls. We are satisfied from our work performed that there has been no identified instances of management override of controls that would result in a material misstatement of the financial statements.

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Significant risks and key audit matters (3)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings In accordance with HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, NHS Grampian is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. NHS Grampian appoint the Valuation Office Agency (District Valuer) to undertake a valuation across their asset base, valuing land and buildings on an annual basis. As at 31 March 2025, NHS Grampian held property, plant and equipment (PPE) of £919 million, including land and buildings of £535 million. Given the significant value of the land and buildings held by NHS Grampian and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year-end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy for fair value and therefore less likely to be materially misstated. **Continued on next page.**	NHS Grampian	In response to the risk highlighted we carried out the following work: • Evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work. • Consulted with our own internal valuations expert, to assess any judgemental assumptions used that underpin the financial valuations. • Evaluated the valuer's report to identify assets that have large and unusual changes and / or approaches to the valuation – these assets were substantively tested to ensure the valuations are reasonable. • Challenged the key data and assumptions used by management's experts in the valuation process for these assets. • Tested a selection of other asset revaluations made during the year to ensure they have been input accurately into the entity's asset register, and the revaluations had been correctly reflected in the financial statements. • Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Reviewed your impairment assessment as to whether these are indicators of impairment for key components of Assets Under Construction (AUC); and where there were indicators of impairment for AUC, we reviewed your calculation of the potential impact on the carrying value, including any work undertaken by your expert, in line with the requirements of the Accounts Manual and International Accounting Standard 36. **Continued on next page.**

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Significant risks and key audit matters (4)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings (continued) We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to prior year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will also focus our work on assets that have not been revalued (if there are any) to ensure the carrying value of assets is not materially different to the current value at the year-end date. We therefore consider this to be a significant risk to our audit and a key audit matter.	NHS Grampian	**Conclusion** NHS Grampian utilise the Valuation Office Agency (VOA) as their management expert to perform the valuation of land and building assets. The VOA utilise a beacon methodology approach to valuing specialised building assets. The NAO commissioned Montague Evans to perform a review of the Valuation Office Agency (VOA) and the beacon approach utilised in their valuation method. The methodology used by the VOA is RICS compliant however the VoA are unable to provide evidence to support beacon costs used due to commercial sensitivity. Therefore, we performed our own audit procedures to determine our own point estimate using BCIS indices and comparing this to the costs used by the VOA to ensure the estimate is materially accurate. Although we identified specific components that were significantly different to BCIS indices on an aggregate approach the net overall impact was not material. As such, we are satisfied that there is unlikely to be a materially different value if different BCIS rates were used. We also undertook a detailed review of floor areas used within the valuation calculations to floor plans held by NHS Grampian. In our prior year audit, we identified several differences between the floor areas used by the valuation expert and those recorded in NHS Grampian's system. NHS Grampian undertook an exercise during 2024/25 to ensure that the valuer had access to the correct floor area data, which also included granting the valuer access to the MICAD system. We performed sample testing over the 2024/25 revaluations and did not identify any instances where the valuation had been based on incorrect floor area data. **Continued on next page.**

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Significant risks and key audit matters (5)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings (continued)	NHS Grampian	**Conclusion (continued)** We also carried out an exercise to confirm whether the use of incorrect floor area data in the prior year had an impact on the opening balances in 2024/25. We have confirmed that whilst incorrect floor area data was used in the prior year revaluation exercise, had the correct data been used as per the 2024/25 revaluations, there was not have a material impact on the opening balance of land and buildings. No prior period adjustment was therefore required. Management requested a formal valuation take place on both the Baird Family Hospital and ANCHOR Centre. These are currently held on the fixed asset register as Assets Under Construction. As a result of this valuation, NHS Grampian reversed previously charged impairment of £6.0 million in order that the accounts reflected the valuation provided by the valuer as at 31 March 2025. Overall, we are satisfied that the valuation of land and building assets within the financial statements is not materially misstated.

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Significant risks and key audit matters (6)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in expenditure recognition Due to the presumption that there are risks of fraud in expenditure recognition, we are required to evaluate which types of expenditure, expenditure transactions or assertions give rise to such risks. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". NHS Grampian's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area. We therefore focus our risk on the completeness of the following non-payroll expenditure streams: independent primary care services, drugs and medical suppliers, and other healthcare expenditure. Our testing will include specific focus on year end cut-off arrangements, including consideration of the existence of accruals and provisions, in relation to non-payroll / non-finance expenditure for the single entity. We therefore consider this to be a significant risk to our audit however we do not consider this to be a key audit matter.	NHS Grampian	In response to the risk highlighted we carried out the following work: • Evaluated the design and implementation effectiveness of the accounts payable system. • Evaluated the design and implementation effectiveness of the system for recording accruals. • Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General ledger. • Searched for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end. • Searched for unrecorded liabilities by performing a substantive test of cash payments post period end. **Conclusion** Our work has not identified any material issues in relation to completeness of expenditure and associated liabilities.

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Significant risks and key audit matters (7)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. **(Rebutted)**	Group and NHS Grampian	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at NHS Grampian and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being funded from the Scottish Government. • income from services commissioned from the IJB and other Scottish Boards is well-forecasted and agreed to funding letters / inter-Board funding agreements, reducing the opportunity for manipulation. • there is a low opportunity to manipulate other income since it is non-complex and there are sufficient controls in place to prevent and detect fraud from other income streams, we therefore believe that the risk of material fraud is low. Therefore, we do not consider this to be a significant risk for NHS Grampian and the Group. **Conclusion** Our work has not identified any material issues in relation to revenue recognition.

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Financial statements – key judgements and estimates

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

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

Assessment

- 🔴 - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated.
- 🟠 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.
- 🟡 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.
- 🟢 - We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Financial statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Land and building valuations - £535.1 million	Land and buildings comprises £485.7 million of specialised operational assets (such as the Aberdeen Royal Infirmary) valued at depreciated replacement cost at year end, on a modern equivalent basis. Land and buildings of £51 million which are not specialised in nature (such as Forres Health Centre) and is required to be valued at existing use in value (EUV) at year end. NHS Grampian has engaged the District Valuer/Valuation Office Agency (DV/VOA) in their capacity as valuation professionals to value the Board's land and buildings. Through our review of the DV/VOA's approach, we understand that the DV/VOA apply an internally generated build cost, based on cost data held by the DV/VOA from a selection of NHS building projects that they have been involved in. They refer to this as a 'beacon' approach.	Our work carried out in relation to the valuation of land and building is detailed on pages 18-20. We have carried out our work in accordance with revised ISA 540 requirements; including testing of completeness and accuracy of the underlying information used in the valuation, challenge of appropriateness of key assumptions and consideration of adequacy of disclosure of estimate in the financial statements. The methodology used by the VOA is RICS compliant however the VOA are unable to provide evidence to support beacon costs used due to commercial sensitivity. In the absence of being able to corroborate the DV/VOA build cost data, we have completed audit procedures to establish a valuation we would expect, using all the other variables we can verify, using an appropriate Building Cost Information Service (BCIS) index for hospital buildings. Our re-calculation of the valuation was in line with that provided by the valuer. We verified all the other source data relevant to NHS Grampian's assets, namely the size of the buildings. We then recalculated our own estimate and to determine a potential value applying the most relevant BCIS for each component within the tested asset. We are satisfied that there is unlikely to be a materially different value if BCIS rates were used.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Property, Plant and Equipment: Depreciation including useful economic lives (UEL) - £28.922 million	NHS Grampian's approach to depreciation is set out in accounting policies: Note 1.7c – Property, plant and equipment - deprecation Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Property, plant and equipment which have been reclassified as 'held for sale' ceases to be depreciated upon the reclassification. Assets in the course of construction are not depreciated until the asset is brought into use. Property assets lives are provided by the valuers.	Our testing of Land and Buildings valuations and discussions with the valuer included an assessment over asset lives. We also reviewed the useful lives of plant and equipment. Our work identified one issue: • During our testing of the Useful Economic Life (UEL) Policies we identified 165 assets being depreciated out with the policies stated in the accounts. This has resulted in management updating the accounting policies for buildings structure; moveable engineering plant and equipment; furniture and medical-life medical equipment; office, information technology, shortlife medical and other equipment; and adding a new policy for specialist assets. Management also confirmed they will be updating the UEL's for ten of the asset's reviewed in 2025/26 to provide a more accurate reflection of the asset's useful life. No change was processed in 2024/25 as the impact was trivial. The health board continue to have a material amount of plant and equipment assets (1,140 assets) at a gross book value of £42.610 million held on the asset register at nil net book value. The health board have reviewed their accounting policy and confirmed an asset will remain on the FAR beyond the end of an asset's useful life where a service has verified it continues to be in use. If an asset hasn't been verified, it will be removed after five years following the end of its useful life.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Property, Plant and Equipment: Depreciation including useful economic lives (UEL) - £28.922 million **(continued)**		NHS Grampian perform the asset verification exercise and any asset older than five years and not physically verified as still in use should be removed from the FAR. We carried out sample testing over the assets held at Nil net book value and found that some assets no longer in use were still held at Nil NBV on the FAR. This was due to not at all assets being included in the most recent asset verification exercise. We considered the impact of the errors identified across the entire population of NIL NBV assets and confirmed these were trivial. Therefore, there is not a material misstatement in the gross cost or gross depreciation in the PPE note. We have included a recommendation that NHS Grampian ensure all Nil NBV assets are included in the asset verification exercise as a matter of course. **Conclusion** We have gained assurance from our work performed that depreciation charged within the financial statements is not materially misstated.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (5)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Commitments under HUB schemes - £60.116 million *Comprehensive Statement of Financial Position and Note 18.*	NHS Grampian has six HUB schemes - Aberdeen Community Health Care Village, Woodside Heath Centre, Forres Health Centre, Inverurie Energy Centre, Inverurie Health Centre and Hub and Forsterhill Health Centre. These are accounted for under IFRIC 12 Service Concession Arrangements, as interpreted by the FReM, as "on-balance sheet" by NHS Grampian. The HUB models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.	We reviewed your assessment of the estimate considering: • review of key assumptions input into the HUB models; • use of specialist software to gain assurance that the HUB model has been appropriately updated for the period ended 31 March 2025; • agreeing that accounting entries from the accounting model have been accurately recorded in NHS Grampian's accounts including the transitional accounting to reflect IFRS 16. **Conclusion** We have not identified any issues as a result of our work in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (6)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Accruals / Holiday Pay Accrual - £60.981 million / £9.781 million *Note 12 – Trade and other payables*	NHS Grampian accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recording in the year to which it relates. NHS Grampian has two main types of accruals • **Manual accruals:** largely based on non-purchase order expenditure. Examples include integrated care service expenditure, pay award accruals and vaccination cost accruals. These are often based on best available information. • **GRNI accruals**: accruals for goods received but not yet invoiced (GRNI). These are automated accruals which are based on purchase orders issued to suppliers, for which goods have been receipted. Less estimation in these as invoice subsequently received should be matched to the purchase order based on an approved price list. • **Annual leave accrual:** calculated based on a split between medical staffing, Agenda for Change (AfC) staff and those on long-term sick leave and maternity leave. Accrual is calculated using WTE per grade, multiplied by hourly rate and holiday hours carried forward at year-end.	**Conclusion** We have performed substantive testing on a sample of both manual and GRNI accruals. Our work has not identified any issues in this area. We have reviewed the FHS Practitioner accrual processed at year end which is based on estimates for Month 11 and Month 12. Due to timing, NHS Grampian do not receive details of the actual expenditure until after the year end. We have carried out procedures post year end to compare the actual expenditure for both months against the accrual processed and confirmed the accrual was higher than the actual expenditure for both months by £1.75 million. As this is a timing issue and the accrual was based on reliable data, management have not adjusted the accounts for this issue and we have reported as an unadjusted misstatement in Appendix A. We have reviewed the Medical Staff holiday pay accrual, and our testing identified a projected over accrual of £1.3 million. This is a result of system errors in the input data which is used to calculate the accrual. NHS Grampian are aware of the system issue and are aiming to resolve for future years. Management are not adjusting the accounts for the issue identified and we have reported as an unadjusted misstatement in Appendix A. **We have also raised a recommendation at Appendix B.** We have not identified any other issues from estimates calculated by management in respect of accruals.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Financial statements – key judgements and estimates (7)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
IFRS 16 Right of Use Asset / Lease Liability: £34.208 million / £31.380 million *Note 17 – Commitments Under Leases*	NHS Grampian's approach is set out in the accounting policies Note 1.12. Initial Measurement: At the commencement of a lease (or the IFRS 16 transition date, if later), a right-of-use asset and a lease liability are recognised. The lease liability is measured at the present value of the payments for the remaining lease term. The right-of-use asset is measured at the value of the liability, adjusted for any payments made or amounts accrued before the commencement date. Subsequent Measurement: The asset is subsequently measured using the fair value model. The cost model is considered to be a reasonable proxy except for leases of land and property without regular rent reviews. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration have been valued using market prices or rentals for equivalent land and properties. The liability is adjusted for the accrual of interest, repayments, and reassessments and modifications. These are measured by re-discounting the revised cash flows.	Our testing of Right of Use assets and Lease Liability identified the following issue: Within one sample item, we noted that a revaluation has not taken place during the year. This should have occurred during the year, as the evidence inspected indicated a payment increase. We requested a revised calculation and confirmed that it was accurate. The overall impact on the financial statements would be an increase to the Right of Use asset of £1.94 million, an increase to the Lease Liability of £1.95 million and an increase of net expenditure £0.011 million. The health board have not adjusted for this error as is it below performance materiality and we have reported as an unadjusted error in Appendix A. No other instances of this nature were noted during our testing. **Conclusion** We have not identified any material issues in relation to our work performed in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Other key elements of the financial statements

There were other key areas of focus during our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice (2021) or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is NHS Grampian's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representations from officers and those charged with governance regarding NHS Grampian's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in the year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of NHS Grampian's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
Matters in relation to related parties	The health board disclose its related party transactions at Note 24 of the accounts. We confirmed that the related party disclosure included within the accounts were appropriate and are not aware of any other related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	We have not been made aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at NHS Grampian.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Minor amendments have been made to the Annual Report and we are satisfied that there are no unadjusted material inconsistencies to report.

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Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Government Financial Reporting Manual (FReM) and NHS Scotland Manual for Accounts. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	We are required to give a separate audit opinion on NHS Grampian's consolidation schedules and carry our specified procedures on these scheduled under group audit instructions. We are working on this area and have referenced this in our outstanding items list as expected, as it is the last item we audit.
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978, and directions thereunder. We have identified minor changes to the disclosures which are reported fully in Appendix 1.
Regularity	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material aspects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Written representations	A letter of representation has been requested from NHS Grampian as required by the auditing standards. This can be found as a separate agenda item to this report. We have not requested any additional representations from management.

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Other key elements of the financial statements (3)

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by NHS Grampian meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's (senior officer's) assessment of the appropriateness of the going concern basis of accounting and conclude that: • a material uncertainty related to going concern has not been identified; and • management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National fraud initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including NHS Grampian, receive matches for investigation. NHS Grampian has put processes and arrangements in place to investigate matches and appropriate personnel are involved in the process. NHS Grampian received their NFI matches for the 2024/25 exercise in December 2024. The total number of matches identified for investigation was 4,412. NHS Grampian's have cleared 4,388 of the matches and have identified 10 errors totalling £25,236. The health board are in the process of recovering these funds. We will be carrying out a detailed review over NHS Grampian's response to the 2024/25 exercise as part of our 2025/26 audit.

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Other findings – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. Control issues relating to the Medicines Management system and Procurement have been outlined in a separate document which has been agreed with management.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating – security management	ITGC control area rating – technology acquisition, development and maintenance	ITGC control area rating – technology infrastructure	Related significant risks / other risks
General ledger	ITGC design, implementation and operating effectiveness.	Green	Green	Green	Green	All significant risks
Medicines Management system	ITCG design and implementation effectiveness only.	Green	Amber	Green	Green	Fraud in expenditure recognition
Procurement	ITCG design and implementation effectiveness only.	Green	Amber	Green	Green	Fraud in expenditure recognition
Asset management system	ITCG design and implementation effectiveness only.	Green	Green	Green	Green	Land and building valuation
Payroll	ITCG design and implementation effectiveness only.	Green	Green	Green	Green	N/A

Assessment

- 🔴 - Significant deficiencies identified in IT controls relevant to the audit of the financial statements.
- 🟠 - Non-significant deficiencies identified in IT controls relevant to the audit of the financial statements / significant deficiencies identified with sufficient mitigation of risk.
- 🟡 - IT controls relevant to the audit of financials statements judged to be effective at the level of testing in scope.
- ⚫ - Not in scope for testing

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Other findings – information technology (2)

IT control deficiencies

As part of our audit work, we obtained an understanding of the IT environment related to all key business processes, identified any risks from the use of IT relevant to our audit and assessed the relevant ITGCs in place to mitigate these risks. We reviewed all five IT systems referred to on the previous page.

We identified control deficiencies in the Procurement and Medicines Management systems and provided details of these issues to the finance team alongside recommendations on how to resolves the control issues identified. The health board provided a response to each recommendation and assigned an action owner and timeline for the issues to be addressed.

The health board have confirmed they have taken action to address each control recommendation made and we will follow-up the recommendations made as part of next year's audit planning work.

Service auditors reports

NHS Grampian utilise a number of shared IT systems, IT applications and processes with other Scottish health boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/ arrangements. During 2024/25 the service audit reports relevant were:

- NHS Ayrshire and Arran ISAE 3402 Type 2 - Assurance Report On Internal Controls Over National Single Instance Financial Ledger Services - Unqualified
- NHS National Services Scotland - IT Services – Qualified: Qualified opinion was based on issues related to controls surrounding new joiners and leavers. We carried out audit work to confirm the processes in place at NHS Grampian and tested starters, leavers and changes of circumstances from periods throughout the year. No issues were identified in this audit testing.
- NHS National Services Scotland - Practitioner and Counter Fraud Services – Unqualified.

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service Auditor reports and the impact on our audit procedures, we do not place reliance on their work. From consideration of the reports, we have adopted audit procedures through our substantive testing as well as testing of all information provided by the entity relevant to our audit work to gain assurance over the completeness, accuracy and occurrence/existence of the balances and transactions recorded within the financial statements.

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04 Wider scope and best value conclusions

Wider scope conclusions

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

Wider scope area	Our risk considerations and focus	Risk identified at final stage		Wider scope conclusion
Financial Management	The arrangements in place at NHS Grampian to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities	Yes		For the second year in succession, NHS Grampian required brokerage to meet its revenue resource limit. Whilst NHS Grampian operated within the three key financial targets set by Scottish Government (SG) during 2024/25, this was possible due to an additional £65.2 million of funding being provided by the SG. During 2024/25, the financial position deteriorated as a result of additional funding provided of £22.4 million to the three IJBs. After inclusion of the additional IJB costs into a revised deficit projection, the health board delivered the revised budget. Regular and transparent financial reporting of the overspend was presented to the Board and Performance Assurance, Finance and Infrastructure Committee.
Financial Sustainability	The projected financial position of NHS Grampian in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the Health Board to effectively deliver services in the future	Yes		The medium-term financial plan reveals that NHS Grampian's cost base is unsustainable, based on current funding levels. NHS Grampian projected a £68 million overspend for 2025/26 which resulted in the budget not being approved by SG. The SG set a maximum overspend limit for 2025/26 of £45 million, resulting in NHS Grampian identifying a further £23 million of savings in June 2025. NHS Grampian have a track record of delivering significant savings however, this may not be sustainable in future years.
Use of Resources to Improve Outcomes	How NHS Grampian demonstrates economy, efficiency and effectiveness through its use of financial and other resources	Yes		NHS Grampian should ensure that the up-to-date costs of the Baird and ANCHOR project are reported to both PAFIC and the Board in a timely manner. Recommendations raised in the prior year audit relating to the Baird and ANCHOR projects remain valid and will be addressed by management once both projects near completion. There continues to be significant operational challenges at the Health Board which has resulted in overall performance declining in 2024/25 and continued pressures on performance.
Vision, Leadership and Governance	The effectiveness of NHS Grampian's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the Health Board	Yes		On 12th May 2025, NHS Grampian were escalated to Stage 4 of the NHS Scotland Support and Intervention Framework due to concerns about local services and performance against national priorities and standards. The SG have commissioned an external diagnostic review to be undertaken to identify areas for improvement which is expected to be finalised in July 2025.

- No risks identified
- Other risks identified.
- Significant risk identified.

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Wider scope audit

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management No significant risks identified.	**2024/25 Financial Performance** The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. NHS Grampian did not set a balanced revenue budget for the 2024/25 financial year. The financial plan submitted to Scottish Government in March 2024 projected a deficit after savings totalling £59.1 million. At the start of 2024/25, Scottish Government set NHS Grampian a brokerage target of £15.3 million, which would have required delivery of further savings totalling £43.8 million. NHS Grampian was unable to reduce the overspend to the brokerage target. The revised revenue resource limit set by Scottish Government for 2024/25 was £1,559.285 million. NHS Grampian's final outturn for the year was £1,559.032 million, resulting in an underspend against budget of £0.253 million. As outlined within the table below, NHS Grampian operated within the three key financial targets set by Scottish Government during 2024/25. However, this was only due to an additional £65.2 million of brokerage funding received from Scottish Government. The outturn for the year is reflected in the table below:	NHS Grampian operated within the three key financial targets set by Scottish Government during 2024/25 however, the board required £65.2 million of additional funding in order to meet its revised revenue resource limit. Continued reliance on brokerage is not a sustainable position for NHS Grampian. This is recognised by both NHS Grampian and the Scottish Government and both parties are working together to consider future options.

Performance against resource limits set by SGHSCD	Revised Resource Limit £m	Outturn £m	Over/ (Underspend) £m
Core revenue resource limit	1,559.285	1,559.032	(0.253)
Non-core revenue resource limit	40.219	40.219	-
Total revenue resource limit	1,559.504	1,599.251	(0.253)
Core capital resource limit	86.909	86.909	-
Non-core capital resource limit	0.623	0.623	-
Total capital resource limit	87.532	87.532	-
Cash requirement	1,706.002	1,706.002	-

Source: NHS Grampian Annual Report and Accounts 2024/25

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Wider scope audit (2)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	NHS Grampian's net expenditure in 2024/25 of £1,681 million increased from the previous year (£1,565 million). One of the key areas of financial pressure related to expenditure on staff costs which increased by £97.2 million in 2024/25, mainly due to the annual pay uplift (£75.8 million) which was fully funded by Scottish Government. The health board continues to experience pressures in staffing and capacity. Non pay expenditure costs also increased, as a result of increased spend in drugs and medical supplies (£15.3 million) and independent primary care (£23.1 million). The increases mainly related to price and volume increases and uplifts to national contract values. Throughout 2024/25, NHS Grampian had outlined it would significantly overspend against its revenue budget. The overspend position worsened as the year progressed, reaching a maximum of £77.4 million at the end of November 2024. However, due to additional savings being delivered during 2024/25, the final year end outturn was an overspend of £64.9 million. NHS Grampian were transparent about the financial position and effectively delivered the revised budget through effective monitoring and reporting of its finances. The health board have an experienced and established finance team who produced the Annual Report and Accounts to a good quality standard. Whilst NHS Grampian successfully delivered £15.6 million of additional savings during 2024/25, it did not enable the health board to reduce the in-year overspend. This was mainly a result of significant overspends across the integration joint boards, with NHS Grampian requiring to provide additional funding to each IJB's in line with the agreed risk share arrangements at year end: • Aberdeen City IJB – Additional funding contribution from NHS Grampian - £6.45 million • Aberdeenshire IJB – Additional funding contribution from NHS Grampian - £13.75 million • Moray IJB – Additional funding contribution from NHS Grampian - £2.196 million	2024/25 budget processes followed appropriate governance processes. Financial performance is now a standing agenda item at each Board meeting. NHS Grampian have a cost sharing agreement in place with the three IJBs which adds additional financial pressure for the health board as they need to provide additional funding to manage IJB overspends. After inclusion of the additional IJB costs into a revised deficit projection, the health board delivered the revised budget.

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Wider scope audit (3)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	The table below shows the how the health board's outturn position for the year and the main movements in the overall budget position. The health board received additional funding during 2024/25 and over-achieved on its savings programme; however, this was offset by the additional funding to the IJBs and in year pressures at the health board. The additional in-year pressures at the health board included unfunded impact of pay awards, secondary care drugs pressures, non pay inflation growth, additional capacity costs and increase to the annual leave accrual.	

2024/25 Financial Outturn	£
Projected overspend before savings	£94.0m
Agreed savings per the 2024/25 budget	(£34.9m)
Forecast overspend per 2024/25 budget	**£59.1m**
Additional in-year pressures at health board	£18.6m
Additional funding received	(£19m)
Additional savings identified in year	(£15.6m)
Outturn (non-delegated services)	**£43.1m**
Additional funding provided to IJBs	£22.0m
NHS Grampian 2024/25 Outturn	**£65.1m**

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Wider scope audit (4)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	NHS Grampian formally requested brokerage totalling £65.2 million for 2024/25. This was approved by the Scottish Government Director General for Health and Social Care and was reflected in the 2024/25 accounts. The health board also received £24.8 million of brokerage in 2023/24 meaning NHS Grampian have now received brokerage totalling £90 million. NHS Grampian's 2024/25 overspend of £64.9 million is the largest overspend by value of any Health Board across NHS Scotland and the fifth highest in percentage terms. The brokerage received in 2024/25 was the highest of any health board in Scotland. Financial performance updates continue to be reported at each Performance Assurance, Finance and Infrastructure Committee (PAFIC) meeting. Following a recommendation raised in the previous audit, finance updates are now a standing agenda item at each Board meeting. This enables additional scrutiny and challenge of NHS Grampian's financial position. **Savings delivery** The Scottish Government set an expectation that all health boards should deliver 3% recurring efficiency savings during 2024/25. NHS Grampian set a target to deliver £34.9 million of savings within the 2024/25 financial plan, with £22 million of these savings (63%) being recurring and the remainder non-recurring (37%). NHS Grampian made good progress with its savings delivery plans and exceeded planned savings. The final savings delivered in year totalled £50.5 million, in excess of the target levels. £25.2 million of the savings are expected to be recurring in nature, however the health board have still needed to rely on non-recurring measures to bridge the financial deficit. The additional savings identified during 2024/25 related to areas including an earmarked funding review, reserves review and savings on agency costs and overtime. Looking forward, NHS Grampian starts the 2025/26 financial year with budget pressures of £93.0 million. The level of challenge is significant, and savings plans have been developed to bridge the financial gap. Further detail on approach to savings delivery in 2025/26 can be found in the financial sustainability section of this report.	Regular and transparent financial reporting was presented to the Board and PAFIC regarding the overspend position. We note the positive achievement that NHS Grampian has made in delivering savings above the target planned for 2024/25, however there remains a high risk of non-delivery of planned efficiencies in future years.

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Wider scope audit (5)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	**Standards of conduct for the prevention and detection of fraud and error** Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption. NHS Grampian has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect fraud and error. These include codes of conduct for members and officers, whistleblowing policy and a policy for the prevention, detection and investigation of suspected fraud, theft and corruption. We assessed key financial and governance policies to ensure that they were reasonable, readily available to staff and are regularly reviewed to ensure they remain relevant and current. NHS Grampian participate in the National Fraud Initiative (NFI) which is a bi-annual counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Grampian received their NFI matches for the 2024/25 exercise in December 2024. The total number of matches identified for investigation was 4,412. NHS Grampian's have cleared 4,388 of the matches and have identified ten errors within the creditor matches totalling £25,235. All ten errors related to duplicate payments made to suppliers and the health board are in the process of recovering these funds. We will be carrying out a detailed review over NHS Grampian's response to the 2024/25 exercise as part of our 2025/26 audit. NHS Grampian report their NFI participation to the Audit and Risk Committee on an ongoing basis.	NHS Grampian have arrangements in place to ensure key financial and governance arrangements are operating.

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Wider scope audit (6)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability Significant risk: There is a risk that transformation and savings plans to address financial pressures for medium to longer term are not sufficient to address future funding gaps and increasing deficits	Audit Scotland's NHS in Scotland 2024 report highlight significant financial concerns across the health sector. Despite increases in health funding, health boards are facing unprecedented financial pressures. These pressures stem from growing demand, operational challenges, and rising costs, which exacerbate the financial strain already present within the NHS. NHS Grampian has been receiving support from the Scottish Government since November 2023, when the Board was escalated to Stage 2 of the Scottish Government's Support and Intervention Framework. On 09 January 2025, NHS Grampian were formally escalated to Stage 3 for finance. This was a result of the deterioration in the financial position of the Board during 2024/25. Stage Three involved enhanced monitoring and support including increased oversight and coordinated engagement from Scottish Government and additional monitoring and oversight from the Finance Delivery Unit. Regular meetings were also held with the NHS Scotland Director of Health and Social Care Finance to discuss NHS Grampian's improvement plans. On 12 May 2025, the health board received communication that it was being moved to Stage 4 of the escalation framework. The reasons provided were as follows: • Financial sustainability and the deterioration of the Board's financial position during 2024/25; and • Leadership and Governance. Aside from the financial element, the Board were escalated due to rising concerns about local services and performance against national priorities and standards, including some quality concerns raised by regulatory bodies. The key focus of this further escalation will be to arrest the rate of expenditure and help mitigate immediate concerns and stabilise the system. The financial plan for 2025/26 submitted by the Board forecasted a deficit of £68.4 million after taking account of the assumed sustainability funding. As the plan did not meet the criteria set out for 2025/26 finance plans, Scottish Government did not approve the plan. The model of support in Stage 4 involves NHS Grampian receiving senior external support and monitoring. NHS Grampian will be expected to report to an Assurance Board chaired by Scottish Government. This Assurance Board reports direct to the Chief Operating Officer for NHS Scotland and Director General Health and Social Care. The onus remains on the health board to deliver the required improvements.	The medium-term financial plan reveals that NHS Grampian's cost base is unsustainable for future operations based on current funding levels. The move to Stage 4 highlights the significant financial pressures on the health board and the significant challenge it will face to bridge the financial gap over the medium term.

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Wider scope audit (7)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	**Short Term Financial Planning** The 2025/26 Revenue Budget was presented to the Board In April 2025 alongside an updated Medium Term Financial Framework covering 2025/26 – 2029/30. NHS Grampian's Financial Plan for 2025/26 has the highest financial overspend in value terms in Scotland and the third highest in percentage terms. The financial gap before savings was £93 million. For 2025/26, NHS Grampian have agreed savings of £39 million. They will also receive additional funding of £24 million, reducing the financial gap on non-delegated savings to £30 million. However, NHS Grampian are projecting a £38 million overspend due to the IJB risk share arrangements. This results is an overall financial gap of £68 million for 2025/26.	NHS Grampian have a cost sharing agreement in place with the three IJBs which adds additional financial pressure for the health board as they need to provide additional funding to manage IJB overspends. NHS Grampian has the highest projected financial overspend in Scotland for 2025/26 prior to savings being agreed.

	2025/26
Financial gap before savings – non delegated services	(£93.0m)
Savings – non delegated services	£39.0m
Additional Scottish Government Income (non-recurring)	£24.0m
Financial gap after savings – non delegated services	**£30.0m**
Additional contribution towards IJB Risk Share Arrangements	(£38.0m)
Overall Financial Gap	**£68.0m**

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Wider scope audit (8)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	On 31st March 2025, NHS Grampian received a letter from the Scottish Government's Director of Health and Care Finance confirming that the financial plan for 2025/26 was not approved. The following was expected of NHS Grampians 2025/26 budget: • NHS Grampian must not exceed a financial deficit of £45 million - there is an expectation that NHS Grampian develop a recovery plan to reduce expenditure and operate within this set limit. • NHS Grampian must also deliver a minimum of 3% recurring savings against Core RRL in line with the national target. The Scottish Government have a placed a limit on NHS Grampians overspend of £45 million and the current projected financial gap is £23 million higher than the limit allowed. The health board does not have budget authority to overspend by more than £45 million in 2025/26, and any overspend will be shown as a deficit in the 2025/26 financial statements. The Scottish Government requested that NHS Grampian find an additional £23 million of savings by the 7th June. This is on top of the £39 million of savings included in the 2025/26 budget, meaning NHS Grampian will be expected to deliver £62 million of savings in 2025/26. The health board have identified the additional savings and await Scottish Government confirmation. A rapid diagnostic review has been commissioned by the Scottish Government on the financial position of NHS Grampian. The purpose of the review is to identify areas where additional savings could be delivered. The financial recovery plan for 2025/26 was submitted to Scottish Government on 30th May 2025 and included key actions to deliver a £23 million reduction in the anticipated deficit. The health board are waiting on advice on the planned next steps and how the external diagnostic review to be undertaken by KPMG interfaces with these savings (more detail in Vision, Leadership and Governance section). A significant contributor to the financial gap is the requirement to provide additional in-year funding to the IJBs. The three IJB's have utilised the majority of reserves balances and therefore, NHS Grampian are required to provide additional funding to ensure the IJBs achieve financial balance. This has a direct impact on the NHS Grampian financial position and has resulted in the health board building into their financial planning assumptions an expectation that the significant additional funding will be provided to the IJBs in future years. For 2025/26, the health board projected an additional £38 million would be required to cover all IJB deficits, however following the agreement of the financial recovery plan, this has reduced to £26 million. The £38m figure was based on an assessment of the potential overspends anticipated to be delivered in the IJBs prior to the 2024/25 year end. The health board seen an improvement in the position in two of the three IJBs in the final quarter of the year which provided assurance to NHS Grampian on the deliverability of savings and a reduction in the provision for IJB overspends.	As a result of the significant financial gap, NHS Grampian's 2025/26 budget was not approved by Scottish Government NHS Grampian must closely monitor the financial position throughout 2025/26 and ensure it does not breach the maximum overspend position of £45 million set by the Scottish Government. Any overspend will require to shown as a deficit in the 2025/26 financial statements. The 2025/26 budget has not been approved by Scottish Government. The health board has identified the additional £23 million of savings requested and awaits the outcome from Scottish Government

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Wider scope audit (9)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	**Medium Term Financial Planning** NHS Grampian have prepared an updated Medium Term Financial Framework (MTFF) 2025/26 – 2029/30 which details the financial position for the next five years. The projected cumulative financial gap over the next five years totals £325 million. This is set out in the table below:	NHS Grampian have a significant deficit position over the medium term, meaning it is unlikely the health board will be able to return to financial balance over the lifetime of the plan.

	2025/26	2026/27	2027/28	2028/29	2029/30
Deficit pre-savings	(£69.0m)	(£69.0m)	(£44.0m)	(£19.0m)	£6.0m
Agreed savings	£39.0m	£30.0m	£30.0m	£30.0m	£30.0m
Outturn on non-delegated services	(£30.0m)	(£39.0m)	(£14.0m)	£11.0m	£36.0m
Outturn related to IJB pressures	(£38.0m)	(£48.0m)	(£58.0m)	(£68.0m)	(£78.0m)
NHS Grampian deficit	(£68.0m)	(£87.0m)	(£72.0m)	(£57.0m)	(£42.0m)

*These have been updated and refined in the developing the financial recovery plan

It will not be possible for NHS Grampian to return to financial balance over the lifespan of the MTFF without a significant redesign of the health and social care system and/or obtain fundamental changes in the funding model. For non-delegated services, the Board is anticipated to return to balance in in the fourth year of the MTFF.

The IJB's are a significant barrier to achieving financial balance. The health board is projecting a £290 million pressure on IJB funding over the five years of the MTFF. The significant pressure on finances is being driven by demographic changes, increasing demand on services and inflation is resulting in significant financial sustainability issues over the medium term. Over the last 5 years, NHS Grampian has experienced a 9% increase in over 65s which is driving the system pressures within both the Health Board and the IJBs.

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Wider scope audit (10)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	Within the MTFF, the health board have identified several factors impacting the health board's financial position including: • Funding - Baseline funding is expected to grow 3% per annum. • Costs - The health board are predicting an increase in costs £370 million over the next five years • Demographics - The overall population is expected to remain static, however expectation is that there will be a significant increase in the over 75 population within next ten years. Assumption in the MTFF that there will be no additional funding due to the overall population not growing. • Demand - Post pandemic there is significant latent demand and new pressures which will require whole system redesign to address. Expected that this period of recovery will extend beyond the period of the MTFF. The health board have also recognised a number of key risks relating to financial planning including: • Undertaking transformation during a period of significant operational and financial challenge. • Continued economic uncertainty impacting on inflation and the supply chain. • The impact of savings required within IJBs on system performance. • Challenges regarding recruitment in a number of locations and specialties. We note that the MTFF has been prepared on the assumption that all additional brokerage funding received from Scottish Government to manage overspends will not be paid back. Total brokerage repayable to the Scottish Government equates to £90 million and were Scottish Government to request this balance was repaid, it would further widen the financial deficit.	The health board have identified several risks and factors which could prevent the health board returning to financial balance over the period of the MFTT.

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Wider scope audit (11)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	**Delivery of Efficiencies** The health board are taking several actions to combat the underlying overspend position. This includes delivery of the Value and Sustainability Programme and Recovery Plan, embedding a performance assurance framework, ensuring enhanced vacancy and non vacancy controls to limit spend on agency staff and staff overtime, the establishment of a strategic change programme and enhanced financial reporting to the Board. The health board have processes in place to manage in year cost pressures. There are programmes in place to monitor the use of supplementary staffing, and meetings are held each month with budget holders to review progress against target spend positions. The regular management accounting process ensures the finance team have oversight of the financial position and this is imbedded into the regular financial processes. NHS Grampian's Value and Sustainability Programme is well established and is delivering savings across several key areas to support the financial position. The approach to Value and Sustainability for 2025/26 and beyond has continued to focus on schemes identified within the Board alongside key areas highlighted in the refreshed "15 box grid". The 15 box grid is a tool developed by the Scottish Government to help NHS boards identify and focus on areas where they can achieve recurring savings. For 2025/26, the health board have identified a baseline target for new savings and a 'stretch' target relating to more ambitious savings which are considered higher risk. Together these total the £39 million of savings agreed in the MTFF. Savings measures include; energy cost reductions (£4.6 million); hospital drug savings (£2.6 million); review of nursing establishment levels (£5 million); agency nursing and medical locums (£2.4 million). Progress towards the delivery of these savings plans is included as part of the Financial Summary monitoring report presented to both PAFIC and the Board. The monitoring report include a breakdown of savings by project, a split between whether the saving is recurring/non-recurring and RAG status on whether the savings is on track to be delivered.	NHS Grampian's Value and Sustainability Programme is well developed and has delivered a significant level of savings during 2024/25. However, the health board will need to continue identifying further savings in future years to address the financial deficit.

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Wider scope audit (12)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	In previous years, NHS Grampian have liaised with other health boards to understand how these boards are achieving financial balances. This has helped to provide additional context to the nature of NHS Grampian and the fact it is trying to deliver service in both an urban and rural setting with the population spread across a significant are of the North-East of Scotland. The geography of the health board provides an additional challenge to the delivery of care, particularly with regards recruitment and retention of staff. NHS Grampian are aware that historically, expenditure on agency costs has been unsustainable and have made efforts to reduce expenditure on agency staff. Total expenditure on agency staff in 2024/25 was £28.8 million, which decreased by £9 million from the prior year, and the health board is continuing to look at ways to reduce the reliance on agency nursing and medical locums. In order to recover the financial position, NHS Grampian are adopting the following principles: • No service growth or development unless supported by new Scottish Government funding. • No new or additional commitments above the financial plan can be agreed without Board and Scottish Government approval. • Current resources will be prioritised to support financial recovery and the route map for strategic change. • A three-year recovery plan, which balances the financial position at the end of year three, is to be developed The three-year financial recovery plan will be an important mechanism for setting out how the health board intends to return financial balance by the end 2027/28. The recovery plan is to be reported to the Board in October 2025 for approval. **See recommendation raised at Appendix C.**	NHS Grampian should agree the financial recovery plan and clearly set out how the health board intends to return to financial balance.

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Wider scope audit (13)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes Significant risk: We identify a significant risk relating to the delivery and subsequent overrun costs relating to the Baird and ANCHOR facilities which could impact on operational delivery as well as delivery of planned benefits.	**Background (Pre 2024/25)** NHS Grampian is undertaking two significant capital projects: • The Baird Family Hospital - the new hospital is to provide maternity, gynaecology, breast screening and breast symptomatic services. The hospital will also have a neonatal unit, centre for reproductive medicine, operating theatre suite, Community Maternity Unit and research and teaching facilities. • The ANCHOR Centre - the new Aberdeen and North Centre for Haematology, Oncology and Radiotherapy (ANCHOR) centre will provide Oncology and Haematology out-patient and day patient services. The centre will also include an aseptic pharmacy, research and teaching facilities. NHS Assure conducts independent assurance reviews over NHS capital projects and was introduced nationally after the construction phase of the Baird and ANCHOR project began. The ANCHOR Construction Stage received an "unsupported" status from NHSS Assure in March 2023. The report highlighted NHSS Assure's concerns about Infection Prevention Control Team (IPCT) involvement and resource capacity, noting unresolved issues and staffing challenges during the pandemic. Due to issues identified in the ANCHOR Construction KSAR Report and by the Infection Prevention Control Team (IPCT), four main areas are under redesign consideration. The issues identified in the KSAR review delayed the proposed opening dates of the Baird and ANCHOR facilities. **Progress during 2024/25 and planned completion of the project** The Project Board met several times during 2024 to agree the overall approach for responding to the concerns raised in the KSAR and asked the Principal Supply Chain Partner (PSCP) to carry out feasibility studies on the buildings, which were completed in Autumn 2024.	The Baird and ANCHOR project continues to be subject to delay. NHS Grampian have agreed the scope of work for finalising both buildings and construction works for required design changes will commence in future months.

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Wider scope audit (14)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	ANCHOR project: In March 2025, the Project Team developed a scope of works for completion of The ANCHOR Centre based on a list of essential changes. All works for the ANCHOR Centre have been issued to the PSCP who is preparing revised designs for the building. The anticipated timeline for the ANCHOR Project is for approval of the works by the end of July 2025, works being undertaken in August/September 2025 and anticipated completion of the building by the end of December 2025. Baird project: The Project Team and technical advisors have now undertaken an initial review of the theatres feasibility study and are developing a revised performance specification for submission to the PSCP. Pre-commissioning activity has commenced ahead of completion the Baird Family Hospital. Weekly commissioning meetings take place with the PSCP involving technical, clinical and IPC stakeholders. A commissioning programme has been developed by the PSCP which has been reviewed and agreed by the Project Team commissioning managers. The scope of work for Baird is more expansive, and work is ongoing with the stakeholder team who are reviewing the areas of issue in the building. NHS Grampian has recently considered further scope of work to be completed at the Board meeting on 12 June 2025. NHS Grampian need to identify dates and the commissioning phase for the work to be carried out but are optimistic that the project will be fully completed with construction by the end of 2026.	The health board have an agreed escalation process in place for decision making. The ANCHOR project is scheduled to be completed in December 2025, subject to all works being completed. The health board have considered the further scope of work for the Baird project and works on the design phase will begin shortly. Dates for finalisation of the project have yet to be agreed.

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Wider scope audit (15)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**Review of arrangements in place to monitor and track delivery of the Baird and ANCHOR capital projects** The mechanisms in place to monitor the delivery of both projects have been enhanced during 2024/25. The Project Board remains in place but is now supported by the Commercial sub-group. This sub-group sits below the Project Board and is used to review the progress of commercial arrangements for the project. The Scottish Government have membership on both the Project Board and Commercial sub-group which ensures Scottish Government are aware of the status of the project and how issues are being addressed. In our prior year audit, we recommended that a review of risk management and lessons learned from the Baird and ANCHOR project should be presented to the Audit and Risk Committee. The lessons learned report remains under development, however completion has been delayed due to ongoing development of the occupancy strategy for both buildings awaiting decision. Once this is finalised, NHS Grampian should ensure the lessons learned report is prepared and presented to the Audit and Risk Committee and the Board once the construction of both buildings has been completed. Formal quality meetings are held monthly between NHS Grampian and the PSCP to review progress, lessons learned and to ensure resolution of quality issues. Fortnightly discussions involving the NHSS Assure team and senior members of the project team are also in place. Senior members of the project team meet with Scottish Government on a weekly basis to discuss progress, emerging risks and issues on the projects. The project progress is reported each month to the Project Board and to the Asset Management Group (AMG), and any specific project reports are received by the Board and PAFIC as required. NHS Grampian are mitigating the risks of the project through the arrangements in place and are working with partners to get the project to a conclusion The Board have agreed an escalation process if a decision could not be made at Project Board level. In the first instance, decisions are escalated to the senior management team. If the chief executive team are unable to reach a consensus decision, the health board have delegated authority to the Interim Chief Executive and Director of Finance to finalise variation of contractual arrangements as necessary on behalf of the Board.	The lessons learned report has yet to be finalised as the Baird and ANCHOR projects are still in development. NHS Grampian should ensure the lessons learned report is prepared and presented to the Board once the construction of both buildings has been completed. **Prior year audit recommendation remains relevant.** NHS Grampian are mitigating the risks of the project through the arrangements in place and are working with partners to get the project to a conclusion.

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Wider scope audit (16)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**Review of arrangements in place to ensure supplier engagement is operating effectively** As outlined, several elements of the both buildings have required redesign since the original scope of work was agreed with the PSCP. These redesigns and other aspects impacting delivery have introduced challenges, affecting both the cost and progress of the project. Despite these challenges, NHS Grampian and the PSCP have ensured ongoing engagement which has enabled cash flow to continue to the contractor and allowed project works to continue to progress. NHS Grampian's project team for Baird and ANCHOR meets biweekly to discuss key issues and holds monthly meetings with the PSCP to address commercial concerns and the impact of changes. Risk management procedures are a key feature of the project with a risk register maintained monthly by all parties, weekly risk reduction meetings and regular reporting of key risks to the Project Board. Project Directors from the construction companies involved in the projects attend the monthly risk register meetings with key NHS Grampian project staff. This collaboration facilitates the identification, monitoring, and resolution of emerging risks and issues by all parties involved in the project. **Review of arrangements in place to revisit and update planning assumptions and business cases relating to Baird and ANCHOR capital projects** In the prior year audit, we recommended that the project team revisit the proposed benefits outlined in the business case, as it is essential to determine whether these benefits remain achievable. This review has yet to be undertaken as the health board is progressing the initial stages of the benefit review. Completion of the workplan has been delayed due to the ongoing development of the occupancy strategy for both buildings awaiting decision. This decision will have a direct impact on project completion timescales and the review of the Full Business Case benefit. It is understood that the overall benefits of project haven't changed, however there have been some changes which could impact the level of benefits realised from the project.	Supplier engagement continues to operate to ensure progression of delivery of the capital project. The project team have yet to complete the review of the Full Business Case to revisit the proposed benefits of the project. **Prior year audit recommendation remains relevant.**

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Wider scope audit (17)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**Review of arrangements in place to revisit and update planning assumptions and business cases relating to Baird and ANCHOR capital projects (continued)** There have been several additions to the project which were not included in the original scope of the project which could expand the overall benefits. The full impact will not be known until the review of the benefits is completed. **Review of arrangements in place to ensure project costs are monitored and approved** Formal returns on project costs and forecast are submitted to Scottish Government as part of the capital planning mechanism. Based on the projections to date, the Scottish Government has continued to agree to cover the costs incurred relating to the Baird and ANCHOR projects. NHS Grampian have also received confirmation in writing from Scottish Government in 2025 that the Scottish Government is satisfied the contract can continue. Project costs are monitored initially by the deputy project director alongside the Boards Cost Advisor in which forecasts are created, prepared and reported to the project board on a monthly basis. PAFIC and the Board are provided reports on the financial position of the projects, however we have noted that significant time has passed since overall project costs were last reported to members for scrutiny. The last time the overall capital costs were reported to the Board was in April 2023. We are aware that the capital costs of the project have changed significantly since April 2023 and NHS Grampian should ensure that the up-to-date capital costs of the project are reported to both PAFIC and the Board in a timely manner. **See recommendation raised at Appendix C.** In our prior year annual audit report, we noted that forecast revenue costs for the project had remained unchanged since the business case approval and recommended that NHS Grampian regularly review all capital and revenue components to ensure the forecasts for the Baird and ANCHOR Centre remain accurate. We have confirmed that revised running costs for both buildings have been refreshed and built into NHS Grampian's Financial Plans from 2025/26. This will continue to develop and work is ongoing with Infrastructure and Family services to understand the risks of recruiting to the Full Business Case staffing levels. Furthermore, assumptions on energy consumption will continue to be reviewed.	We are satisfied that arrangements are in place to ensure project costs are monitored and approved. NHS Grampian should ensure that the up-to-date costs of the Baird and ANCHOR project are reported to both PAFIC and the Board in a timely manner.

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Wider scope audit (18)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**Performance Reporting** The health board's performance reporting is aligned with Delivery Plan priorities. Both the 'How Are We Doing' performance report and reports to the Performance Assurance Infrastructure and Finance Committee (PAFIC), is aligned with Delivery Plan priorities. Milestone monitoring is further supported by the development of NHS Grampian's Integrated Performance Assurance Framework that was introduced during 2024. The 2024/25 Annual Report includes the board's performance against its national waiting time standards position at the end of March 2025 and enables a comparison against the Scotland average. The health board have some areas of improved performance in 2024/25 however there continues to be significant operational challenges. There has been increasing pressures on Emergency Departments during the year. Whilst this is an ongoing issue across the NHS in Scotland, NHS Grampian had to declare a "critical incident" in November 2024 due to sustained and continuing demands on Aberdeen Royal Infirmary (ARI). The Annual Delivery Plan (ADP) is NHS Grampian's mechanism to set out priorities for change and the health board publishes performance against the deliverables and KPI targets set out in the ADP. Of the 100 Deliverables reported in the Delivery Plan, 45% were complete at the end of Quarter 4, 36% subject to minor delay, and 12% significant delays. A further 5% had been postponed and 2% had not received a Q4 status update report. For the 55 Deliverables not completed during 2024/25, NHS Grampian have reported that the main reason for items not being completed related to workforce capacity and insufficient funding. An internal audit review was carried out in March 2024 to review the design and operating effectiveness of key controls relating to NHS Grampian's performance management arrangements. The audit concluded with an overall risk rating of low. A review paper outlining the outcome, identified risks, and proposed mitigations was submitted to PAFIC, with recommendations approved in September 2024. The health board has taken steps to address the recommendations made in the review.	NHS Grampian, like other health boards across Scotland, is facing significant system pressures, including capacity, workforce and waiting list backlogs. These operational pressures correspond to the some of the key financial pressures facing NHS Grampian.

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Wider scope audit (19)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	NHS Grampian recognise there is opportunity to strengthen how in-year performance is articulated. The health board is aiming to shift from activity-based reporting to an outcome-focused model. A key part of this will be the system-wide adoption of SMART principles across Objectives, Outcomes, KPIs, and Deliverables. KPIs will be focused on outcomes rather than activity alone, to reflect on progress and effectiveness. **Bed Base** Hospital occupancy rates across Grampian are regularly above 100%. In response to the critical incident, NHS Grampian took steps to increase bed capacity, however this results in increased costs for the service. NHS Grampian has the lowest bed base in Scotland, approximately 1.4 beds per 1,000 population. The next closest mainland Board has approximately 2.0 beds per 1,000 population, whilst the Scotland median is 2.4 beds per 1,000 population. The health board are limited by the physical space they have in hospitals, meaning it is difficult to significant increase the capacity of beds to deliver care. The health board presented a bed base review to the Board in September 2024, a follow up to the bed base review project conducted in spring 2023. The review highlighted that additional bed capacity is critical to enable the hospital to respond to in-patient hospital service-based demand and that the current bed capacity at ARI continues to be inadequate. In order to increase the bed base, significant recurring investment will be required to deliver additional capacity. This is the current operating model the health board are operating within, and the health board must continue to identify solutions to manage in year operational pressures.	The health board recognise under performance and alongside the financial recovery, performance recovery needs to be integrated as part of their recovery planning.

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Wider scope audit (20)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**National Targets** NHS Grampian's performance against key national treatment targets in 2024/25 is set out in the Annual Report and Accounts. The Annual Report provides a summary of performance against key targets and provide high level detail around the performance data provided. Full details on the health board's performance is available through the Public Health Scotland website. The health boards performance has been mixed during 2024/25 and several performance indicators are below national targets. There are several areas of challenge which has impacted the health board's performance however we have noted areas where the health board are above national target, including Child and Adolescent Mental Health Services (CAMHS) which consistently exceeded the 90% national target. Further detail on NHS Grampian's performance in 2024/25 can be found in the following pages. All NHS boards face the difficult challenge of trying to reduce waiting times while delivering services within available resources. NHS Grampian are below the national targets for the majority of reported performance statistics. As noted within the following pages, performance in 2024/25 has declined in many of the national targets when compared to 2023/24, this is against the backdrop of increased expenditure. As outlined previously, NHS Grampian are operating under significant financial pressures and therefore it is unlikely that the health board will be able to achieve significant improvement in performance in the short to medium term. However, the health board are taking steps to improve performance. As an example, the Board have approved an Operational Improvement Cancer Delivery Plan to deliver improvement in performance towards the national cancer waiting times standards by March 2026.	The health board's performance has been mixed, with several performance indicators below national targets during 2024/25. Performance is lower in 2024/25 when compared to the previous year despite an increase in expenditure.

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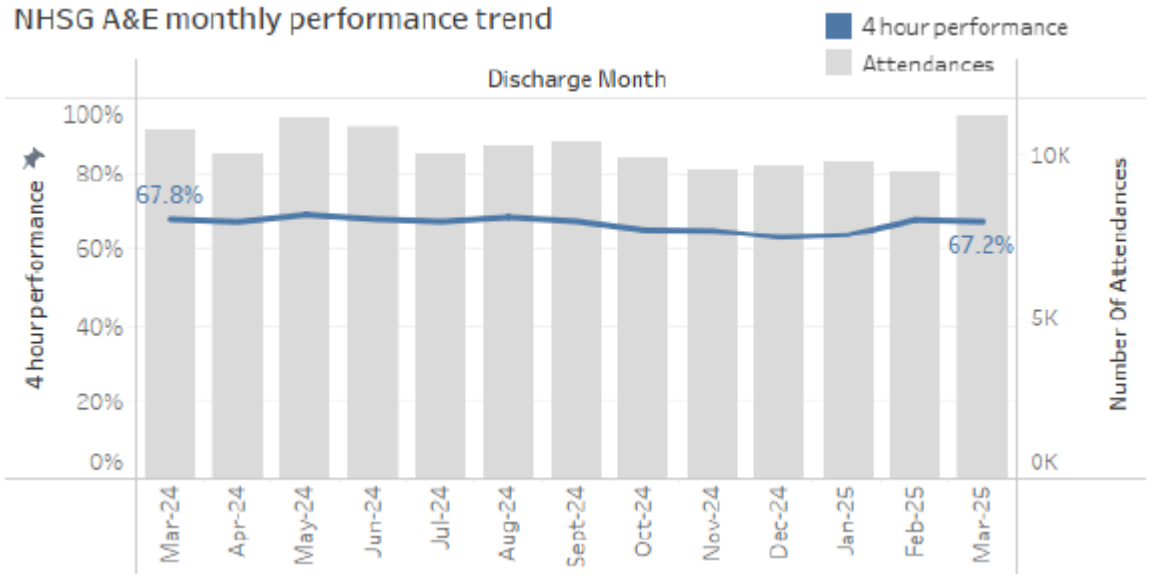
Wider scope audit (21)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**98% of patients should wait no more than 4 hours from arrival to admission, discharge or transfer for accident and emergency treatment:** Total A&E attendances in March 2025 were 11,247, an increase of 4.3% over March 2024. In March 2025, 67.2% of A&E patients were seen within 4 hours, compared to 67.8% in March 2024, against a Scotland-wide rate of 70.6% (67.4% in March 2024). The table below evidences that the target was not met in any month during 2024/25. Graph: A&E Monthly Performance Trend – 98% Target (NHS Grampian)  Data source: Public Health Scotland	Performance against this indicator has been consistent each month in 2024/25; however, it is lower than the 98% national target.

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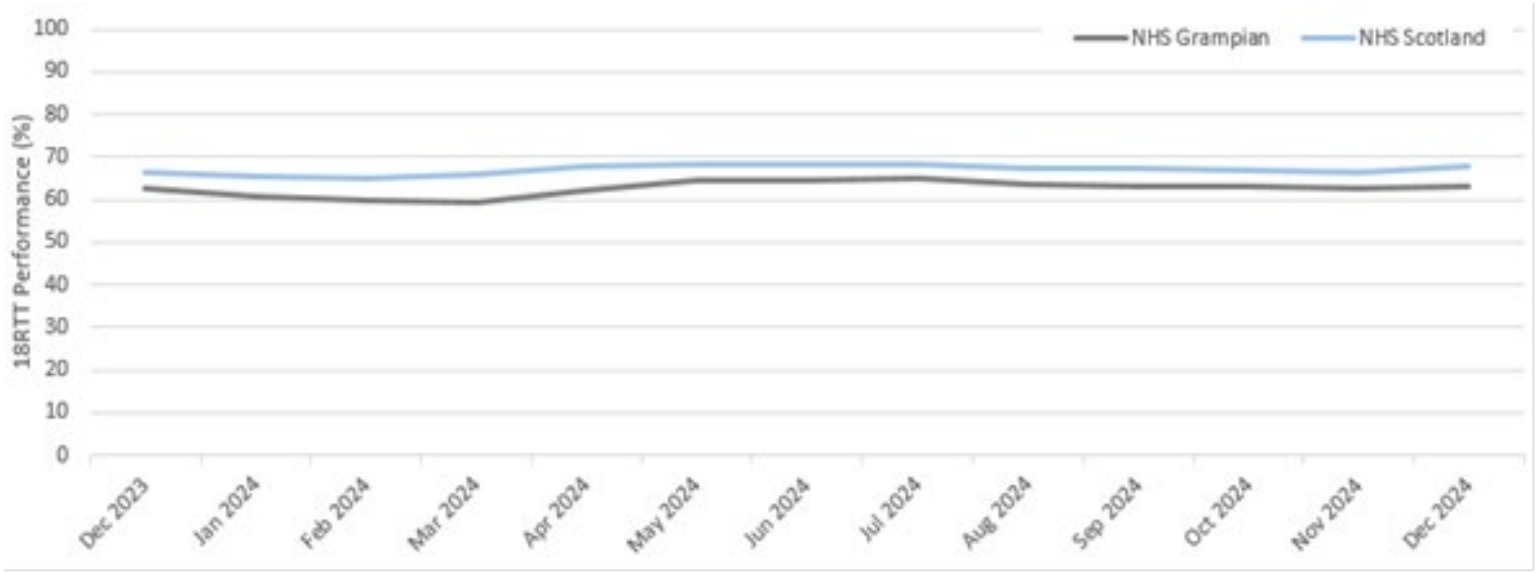
Wider scope audit (22)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**The percentage of patient journeys completed within 18 weeks - from GP referral to outpatient appointment and / or treatment:** NHS Grampian's performance (average 63.54%) was lower than the Scotland position (average 67.57%) during the 2024/25 year to December 2024. (Note: Public Health Scotland requested that Boards pause 18 week Referral to Treatment (RTT) reporting in March 2025, therefore December 2024 is the most up-to-date position). Graph: 18 Week RTT Performance – 90% Target (NHS Grampian v Scotland Average)	Performance against this indicator has been consistent however it is lower than the 90% national target in every month during 2024/25.



Data source: Public Health Scotland

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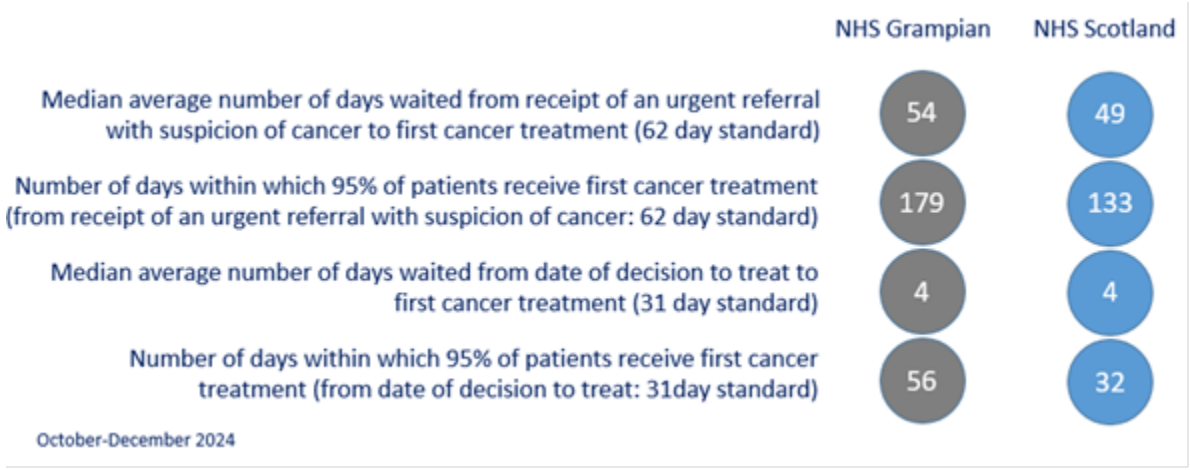
Wider scope audit (23)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	**Key National Targets (continued)** **Cancer Access Times: 31 days from decision to treat (95%) and 62 days from urgent referral with suspicion of cancer (95%).** Cancer treatment performance did not meet the 95% standard for the 31 day target in any quarter, and the 62 day performance has declined, failing to meet the national standard. In March 2025, 90.1% of patients started treatment with 31 days, compared to 88.7% in March 2024. The health board's performance is significantly below the 62 day target, with 52.5% of patients starting treatment within 62 days in March 2025, compared to 53.8% in March 2024. Data obtained from Public Health Scotland shows the average waiting times for cancer treatment and the number of days within which 95% of patients with newly diagnosed primary cancers are treated. Performance results between October – December 2024 (latest publicly available data) shows that the board are above the average number of days for treatment and referrals in relation to cancer treatment compared to the national Scottish average. Graph: Cancer Access Times – (NHS Grampian v Scotland Average)  Data source: Public Health Scotland	Performance against both elements of the indicator has been below the national target in every reporting quarter during 2024/25.

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Wider scope audit (24)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance Potential significant risk identified.	**NHS Scotland: Support and Intervention** As outlined earlier in the report, NHS Grampian have been escalated to Stage 4 of the NHS Scotland Support and Intervention Framework, with one of the reasons provided by the Scottish Government being Leadership and Governance. The Board have been escalated due to rising concerns about local services and performance against national priorities and standards, including some quality concerns raised by the regulatory bodies. Scottish Government have also taken cognisance of the significant operational pressures experienced in previous months, including NHS Grampian having to declare a critical incident for three days in November 2024 and the Board formally registering 'intolerable' strategic risks. The Scottish Government see further escalation as an opportunity to provide a robust foundation for the wider local transformation work and to support the Board's leadership going forward. In response to the escalation, the Scottish Government have commissioned an external diagnostic review to be carried out at NHS Grampian. This work will be undertaken by KPMG and commenced in June 2025. The scope of the work includes: • Leadership and Governance Review – Review the design and operational effectiveness of the high-level financial governance arrangements in place at NHS Grampian and the Integration Joint Boards over the past two financial years • Opportunity Identification - Assess and benchmark a broad range of information provided by the client to identify credible, incremental, novel, and innovative opportunities for improvement. • Financial and Performance Drivers - Assess the level of oversight and scrutiny applied to financial reporting, as well as the governance structures supporting this process; the response to formal concerns raised by external parties; the effectiveness of the strategic risk management framework; and overall leadership and governance arrangements which are in place. KPMG expect to provide a final report to NHS Grampian in July 2025 which will provide a quantified and prioritised list of opportunities, a summary of key drivers of the financial deficit and overall findings and recommendations. At this stage, it is too early to report on the health board's response to the escalation and we will follow up as part of our 2025/26 audit. **See recommendation raised at Appendix C.**	The conclusions identified in the KPMG review will provide context around the underlying issues NHS Grampian are experiencing and once findings are received, the health board, in consultation with Scottish Government, must take action to implement recommendations. At this stage, it is too early to comment on the outcomes from the escalation to Stage 4.

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Wider scope audit (25)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	**External Care Inspections** During 2024/25, HIS & NES collaborated on gathered intelligence they were concerned about. These bodies identified identified several areas of concern which were disclosed to the health board in a joint letter dated February 2025. Issues raised included concerns over the effectiveness of the current leadership arrangements, highlighted limitations with existing governance arrangements and identified some significant workforce challenges alongside recruitment difficulties. NHS Grampian responded to the concerns raised by the regulators in April 2025, detailing the specific courses of action being taken by the health board to address the concerns raised. This included a review of the delivery of the health board's change programmes against the concerns raised and to ensure the health board were prioritising the correct issues. Health Improvement Scotland carried out an unannounced follow-up inspection of Dr Gray's Hospital in Elgin in July 2024. This was in response to issues identified in a previous inspection in October 2023. The follow-up inspection resulted in five areas of good practice, two recommendations and 12 requirements (10 requirements were carried forward from the previous inspection). A requirement in the inspection report means the hospital or service has not met the required standards and the inspection team are concerned about the impact this has on patients using the hospital or service. In response to the issues raised, NHS Grampian have developed an Improvement Action Plan identifying the planned actions, an action owner and a timescale for each requirment to be addressed. The Chief Executive Team have been provided regular updates on the Action Plan. Furthermore, progress on the action plan is reported to the Clinical Governance Committee for scrutiny. During 2024/25 the Health Board were in the process of changing the governance structure for Acute Services as part of the Integration of Acute Pathways. Previously, all hospitals operated within their own governance arrangements, however following feedback received from HIS, the health board are bringing four hospitals; Aberdeen Royal Infirmary; Dr Gray's Hospital; Aberdeen Maternity Hospital; and Royal Aberdeen Children's Hospital within the one reporting structure. This is in progress and Dr Gray's Hospital has already transferred into this arrangement, where previously this had been the responsibility of the Chief Officer of the Moray IJB. The health board have also appointed a Chief Officer of Acute Services, which is a newly created post at NHS Grampian and the reporting is planned so all major hospitals will be within the one governance structure.	The health board must take action to address the concerns raised by regulators at an appropriate pace in line with approved governance processes.

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Wider scope audit (26)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	**Governance Arrangements** In May 2025, Audit Scotland published the "NHS in Scotland: Spotlight on governance" report. The scope of the report was to consider what the governance arrangements are within NHS Scotland and how effectively are they supporting scrutiny and reform. The overall conclusion was NHS Scotland's governance arrangements need to be strengthened to deliver the scale of reform needed across the health service. The report provided a number of recommendations to be taken forward by both the Scottish Government and health boards on how to better support the governance of health care. This report is being presented to the Audit and Risk Committee meeting on 24 June 2025, and any issues in the report requiring escalation will be taken to another Committee or the Board. NHS Grampian's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed the disclosures and they are appropriate and further amendments are included to add more information on the escalation process within the Annual Report. Dr Adam Coldwells has been the Interim Chief Executive since December 2023. In February 2025, Dr Coldwells confirmed his intention to retire in late 2025. The health board have now appointed Laura Skaife-Knight as the new Chief Executive, and she is expected to commence the role in Autumn 2025. There have been other changes in senior leadership during 2024/25, including a new Medical Director being appointed from January 2025 due to outgoing retirement. Due to the upcoming change in senior management, continued active leadership will be required to harness the culture of continuous improvement. This will include a focus on financial and strategic planning and clear communication with the health board and wider partners. There has been changes recent change in leadership at all Grampian based IJBs. Moray IJB appointed Judith Proctor as its Chief Officer in November 2024 (following an interim period), Aberdeenshire IJB appointed Leigh Jolly as its Interim Chief Officer in April 2025 and Aberdeen City IJB appointed Fiona Mitchelhill as Chief Officer in February 2024.	We are satisfied that management have been open and transparent with the Board on its challenging financial position. There has been significant change in senior leadership, including at the three IJB's which have seen new Chief Officers appointed in past 18 months. NHS Grampian's new Chief Executive's active leadership will be pivotal to drive the health board's plans to secure improved operational and financial performance.

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Wider scope audit (27)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. The Board is supported by a number of committees, and the minutes of committee and sub-committee meetings are presented to the Board. In addition, minutes from meetings of Aberdeen City IJB, Aberdeenshire IJB and Moray IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at all three IJBs, this presents the exercise of control over each IJB which is shared equally between Grampian Health Board and the relevant Local Authority. Through our attendance at the Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review). Adequate time is allowed to discuss issues on the agenda, and this enables the Audit and Risk Committee to exercise effective scrutiny. A meeting of Audit and Risk Committee members and auditors was held in May 2024 to discuss the effectiveness of audit and Audit and Risk committee meetings. Following this meeting, in September 2024 we presented to non-executive members an overview of the work we carry out as external auditors, in order to provide members a thorough understanding of the scope of the work we are required to undertake during an audit. The Medium-Term Financial Plan is revised annually by management and the board and identifies significant financial pressures related to pay awards, energy charges, and the necessary investments to achieve net-zero carbon emissions. These factors have heightened the risk to the Board's financial sustainability and its ability to achieve financial balance. The plan acknowledges the challenges and difficult decisions required to manage healthcare demands effectively without compromising the quality or safety of care. We are satisfied that management have been open and transparent with the Board on its challenging financial position. NHS Grampian has an independent internal audit function which provides a risk-based audit programme. The year-end internal audit opinion was presented to the Audit and Risk Committee on 24 June 2025. Internal audit's opinion for 2024/25 confirmed that governance, risk management and control in relation to business critical areas is generally satisfactory. Internal audit provide update reports to each Audit and Risk Committee meeting, which includes a follow up of previous audit recommendations. We note that several audit recommendations are overdue, including a number of high-risk recommendations relating to an internal audit Ransomware review completed in June 2023. The health board should continue to ensure that internal audit recommendations are actioned in a timely manner.	The Audit and Risk Committee performs its role effectively

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Wider scope audit (28)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	**Risk Management** The Audit and Risk Committee receive updates on strategic risk management at each meeting. The most recent report taken to the June 2025 Committee identified ten strategic risks, four of which were rated as very high risks. All risks rated as very high risk are subject to enhanced monitoring and scrutiny by Risk Owners, the Chief Executive Team (reviewed at every Chief Executive Team Strategic Risk Meeting) and aligned Board Committees. The four risks rated as very high are: • Inability to meet population demand for Planned Care • Significant delays in the delivery of Unscheduled Care • Inability to affectively maintain and invest in NHS Grampian's infrastructure • Deviation from recognised service standards of practice and delivery We will follow up the health boards actions and outcomes from the latest risk report as part of the 2025/26 audit to assess the mitigations and direction of travel. A revised Risk Appetite Statement was approved by the Board in April 2025. Internal Audit completed a review over the risk management arrangements in place at the health board during 2024/25. The overall conclusion was "overall, the Board has moderate controls over its risk management process at an operational level, which could affect the organisation's ability to oversee and mitigate risks effectively". Three medium risk findings were identified, and the health board are in the process of responding to the recommendations raised.	The Health Board need to continue to take appropriate action to mitigate the high risks in the risk register

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Best value conclusions

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The duty of Best Value, as set out in the SPFM, is:

- to make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance,
- to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Guidance for Accountable Officers is structured around the nine characteristics for Best Value in the SPFM, grouping into five themes and two cross-cutting themes as follows:

Guidance for Accountable Officers	Scottish Public Finance Manual themes
Vision and Leadership	Commitment and leadership, responsiveness and consultation and sound governance at a strategic and operational level
Effective Partnerships	Joint working, responsiveness and consultation
Governance and Accountability	Responsiveness and consultation, commitment and leadership and accountability
Use of resources	Sound management of resources and use of review and options appraisal
Performance Management	Sound governance at a strategic and operational level, responsiveness and consultation
Equality	Equal opportunities arrangements
Sustainability	A contribution to sustainable development

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

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Best value conclusions (2)

Best value area	Best value audit response and findings
Best value	Health Boards in Scotland have a legal duty to deliver "Best Value" in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities, and sustainable development. The Code of Audit Practice requires auditors to consider the arrangements put in place by Accountable officers to meet their Best value obligations. **Conclusion** NHS Grampian have arrangements in place to secure Best Value, as demonstrated in the health boards Performance Report and Accountability Report. We consider these arrangements as part of our regular wider scope work and have identified a number of audit recommendations which NHS Grampian should address. The Accountability Report contains NHS Grampian's own assessment of the arrangements in place to secure Best Value. However, we have noted that the health board have no mechanism for formally reviewing and reporting on the arrangements to secure best value. We recommended that NHS Grampian should undertake a formal review of the Best Value assurance framework and complete an assessment of the board's arrangements to secure Best Value. The outcome of the assessment should be reported to the board at the end of each financial year. **See recommendation raised at Appendix C.**

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Appendices

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A. Audit adjustments

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

Impact of adjusted misstatements

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

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A. Audit adjustments (2)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on NHS Grampian's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
General	There were minor changes noted to grammar and to correct spelling and other consistency issues. The health board has corrected these in the final version of the financial statements. Such changes are are expected and do not warrant detailed explanation.	Yes
Performance Report	Detail was added into the Performance Report to describe the nature of the NHS Grampian Value and Sustainability Framework and performance updates for information which was not available when draft accounts were prepared.	Yes
Governance Statement	Additional disclosure was added to the Governance Statement to provide further information on the recommendations raised by the Mental Welfare Commission following their visits to hospitals during 2024/25. Further context was added to the Governance Statement to provide more information on the health board's escalation to Stage 4 of the Scottish Government Support and Intervention Framework	Yes
Remuneration and Staff Report	Additional disclosure was added to the Remuneration and Staff Report to provide detail on NHS Grampian's ambition to be an anchor organisation.	Yes
Note 1.4 - Accounting Policies	We identified several building assets which had a useful life greater than the maximum useful life outlined within Note 1.7c to the Accounting policies. The accounting policy for UELs of buildings has been updated to reflect this change.	Yes
Key sources of judgement, estimation and uncertainty	We requested that additional disclosure be added to the Contingent Liabilities: Land and Building to make it clear that these initial costs are recognised in the accounts.	

A. Audit adjustments (3)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 4 – Operating Income	We identified that the disclosure of donations income of £0.737 million was incorrectly mapped to profit on disposal of assets.	Yes
Note 14 – Contingent Liabilities and Assets	We identified that the contingent asset and contingent liability disclosure of the clinical and medical compensation payments has been incorrectly disclosed. This resulted in a £22.5 million decrease in the contingent asset and a £20.1 million decrease in the contingent liability disclosed within Note 14. We also identified that the Employers Liability payments contingent assets and liability had also been disclosed incorrectly and resulted in a £0.6 million decrease to the contingent asset and a £0.21 million decrease to the contingent liability. Narrative disclosure was updated to clarify the treatment of contingent assets and liabilities	Yes
Note 16 - Leases	We identified that the narrative within Note 16 regarding pool vehicles was incorrect and was updated to reflected the correct closing right-of-use net book value for pooled vehicles of £1.2 million.	Yes
Note 20 – Financial Instruments	We identified that the annual leave accrual and amounts payable to the general fund should be removed from financial liabilities as they do not meet the definition of a financial instrument under IFRS 9. The value of these items is £19.870 million. Management have adjusted the accounts for this issue. We also confirmed that the prior year comparator figures was adjusted by £10.409 million to ensure prior year disclosure was consistent with current year.	Yes
Note 23 – Consolidated Financial Statements	Due to a late change in the final agreed figures for Moray IJB at the Council side, the consolidated financial statements were updated to reflect the final agreed position for the IJB.	Yes

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A. Audit adjustments (4)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below. The amendments have been assessed factoring in the small surplus the Health Board has reported within their financial statements. We are satisfied that management has not amended for these items and in doing so this does not impact the audit opinion.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total gross expenditure £'000	Reason for not adjusting
Right of Use Asset – Single Entity We identified that a revaluation had not taken place during the year. The revaluation should have occurred during the year, as the evidence inspected indicated a payment increase. The overall impact on the financial statements would be an increase to the Right of Use asset of £1.94 million, an increase to the Lease Liability of £1.95 million and an increase of net expenditure £0.011 million.	DR Depreciation (Revenue) £109 DR Interest (Revenue) £20 CR Rental of Equipment £98	DR ROU Asset £2,052 CR Lease Liability £2,052 CR ROU Asset Depreciation £109 Dr Lease Liability £98	£11	Non-material error.

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A. Audit adjustments (5)

Impact of unadjusted misstatements

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total gross expenditure £'000	Reason for not adjusting
FHS Accrual – Single Entity The FHS Practitioner accrual is based on estimates for Month 11 and Month 12. Due to timing, NHS Grampian do not receive details of the actual expenditure until after the year end. We carried out procedures to confirm what the actual expenditure was for both months and identified the accrual processed was higher than the actual expenditure for both months. The overall impact on the financial statements would be a decrease to expenditure of £1.75 million and a decrease to trade payables of £1.75 million.	CR Drugs and Medical Expenditure £1,746	Dr Trade and Other Payables £1,746	(£1,746)	Non-material error
Holiday Pay Accrual – Single Entity Our review of the Medical Staff holiday pay accrual identified a projected over accrual of £1.3 million as a result of the accrual being based on incomplete data. The overall impact on the financial statements would be a decrease to expenditure of £1.3 million and a decrease to trade payables of £1.3 million.	CR Other Health Care Expenditure £1,300	Dr Holiday Pay Accrual £1,300	(£1,300)	Non-material extrapolated error
Overall Impact			(£3,035)	Being a reduction in expenditure

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A. Audit adjustments (6)

Impact of unadjusted misstatements

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Aberdeen City IJB Reserves – Group Accounts A late change was identified in the Aberdeen City IJB accounts which resulted in the IJB recognising a reserve at year end. The heath board's accounts have been based on the IJB retaining no reserves at year end. This is a balance sheet adjustment, and the impact is limited to Joint Ventures accounted for on an equity basis.		Dr Investments in Joint Venture £1,643 CR Other Reserves – Joint Venture £1,643	Balance Sheet adjustment on consolidation in the group accounts. If adjusted, would not impact funding.	Non-material error
Overall Impact			£Nil	

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A. Audit adjustments (7)

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2023/24 audit. Management did not amend the financial statements for these errors, as they were not material. The impact for 2024/25 is not material and therefore management did not amend the current financial statements for these prior period unadjusted errors.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Land and Building Valuations - Beacon Methodology (2023/24) The DV/VOA were unable to provide evidence to support beacon costs used within their valuation of land and buildings and therefore we have performed our own audit procedures to determine our own point estimate using BCIS indices and comparing this to the costs used by the VOA to ensure the estimate is materially accurate. We identified specific components outside our expectation and we challenged the DV/VOA on these. Although we identified specific components that were significantly different to BCIS indices on an aggregate approach the net impact was not material. This resulted in an overall net projected understatement of £2.812 million compared to the valuation provided by the VOA. This issue has not re-occurred in 2024/25. This is an annual assessment and there is no impact on 2024/25.	DR Revaluation Movements £2,812	CR Property, Plant and Equipment £2,812	Impact on net expenditure and funding is nil as this would be a balance sheet technical adjustment	Non-material extrapolated error.

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A. Audit adjustments (8)

Impact of unadjusted misstatements in the prior year (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Land and Building Valuations - Floor Areas (2023/24) Our work identified differences in floor areas between floor plans held by NHS Grampian and floor areas used in the valuation of buildings. We have projected the differences identified over the buildings subject to depreciated replacement cost valuation resulting in an extrapolated misstatement of £2.837 million. This issue has not re-occurred in 2024/25. We have reviewed floor areas as part of our 2024/25 valuations work.	DR Revaluation Movements £2,837	CR Property, Plant and Equipment £2,837	Impact on net expenditure and funding is nil as this would be a balance sheet technical adjustment	Non-material extrapolated error.
RTA Debtors (2023/24) We have noted that any RTA debt over 5 years no longer appears on the CRU system. These debts are 100% provided for due to the length of time they have been outstanding and therefore the net impact on the balance sheet is nil however, we have been unable to obtain assurance whether the gross position stated within the receivables note is accurate for RTA debt over 5 years and therefore management should review outstanding debt over 5 years and consider full write off of the debtor from the receivables balance to ensure the gross amount is not misstated. We have identified the total RTA debt over 5 years that we could not obtain assurance over equates to £1.373 million and therefore is an immaterial uncertainty in the gross value of debtors. This issue has not re-occurred in 2024/25. NHS Grampian have reviewed this debt during 2024/25 and removed all aged debt with no supporting evidence.		CR Debtors £1,373 DR Impairment of receivables £1,373	Impact on net expenditure and funding is nil as this would be a balance sheet adjustment	Non-material uncertainty.

A. Audit adjustments (9)

Impact of unadjusted misstatements in the prior year (continued)

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Property, Plant and Equipment Additions (2023/24) We identified one item subject to testing which was capitalised in 2023/24 however we believe should have been capitalised in 2022/23. Evidence viewed identified that the lease agreement was in place from July 2021 however had not been capitalised on transition to IFRS 16 in 2022/23. The value of the asset was £451,772. We extrapolated the error over the population tested which resulted in an extrapolated misstatement of £2.019million. This was an isolated error and has not re-occurred in 2024/25		DR PPE B/F Opening Cost £2,019 CR PPE Additions £2,019	Impact on net expenditure and funding is nil as this would be a balance sheet adjustment	Non-material extrapolated error.
Clinical and Medical Provision (2023/24) We performed a recalculation of the expected provision for clinical and medical claims based on the risk factor determined by the Central Legal Office. Our recalculation of the provision amount was £1.527 million different to that calculated by management. This issue has not re-occurred in 2024/25. We have reviewed this provision as part of our audit work in 2024/25	DR Expenditure £1,527	CR Clinical and Medical Provision £1,527	This estimate is updated annually and we have confirmed it is correctly reflected in the 2024/25 accounts.	Non-material error
Overall Impact	£7,176	(£7,176)	No impact on actual net expenditure	

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B. Action plan and recommendations – financial statements audit

We have identified one financial statement recommendation for NHS Grampian and the group during our audit of the financial statements for the year ended 31 March 2025. We have agreed our recommendations with management and will report on progress on these recommendations during our 2025/26 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being report to you in accordance with auditing standards.

Note: IT recommendations have been agreed with management in a separate IT action plan which is not included within this report. Further detail can be found in other findings – information technology section of this report.

Assessment	Issue and Recommendation	Management Response
Medium	**1. Holiday Pay Accrual – Medical Staff** NHS Grampian's finance team were informed by SSTS that the report used to prepared the Medical Staff element of the holiday pay accrual would not be available for 2024/25. As a result, the finance team had to use returns from service lines as the input data used to create the accrual. These returns were completed manually by service managers, and a separate return was received for each employee. Our audit testing identified variances between the input data used in the accrual calculation and evidence provided for a sample of employees. This was due to the manual nature of the process. **Recommendation:** NHS Grampian should ensure that the Medical Staff holiday pay accrual is calculated using complete and accurate data.	A review of arrangements for the annual accrual is in place. It is recognised a manual process is prone to errors and additional validation checks will be incorporated into the process. **Action Owner**: Director of Finance **Timescale for implementation:** April 2026

- High – significant effect on the financial statements.
- Medium – limited effect on the financial statements.
- Best practice

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C. Action plan and recommendations – wider scope and best value

We have set our below, based on our audit work undertaken in 2024/25, the key recommendations arising from our wider scope and best value audit work:

Recommendation	Agreed management response
1. Financial Recovery Planning NHS Grampian's medium-term financial plan highlights that the projected cumulative financial gap over the next five years totals £325 million. The health board are implementing a three-year financial recovery plan which will set out how the health board intends to return financial balance by the end 2027/28. The recovery plan is to be reported to the Board in October 2025 for approval. **Recommendation:** NHS Grampian should agree the financial recovery plan and clearly set out how the health board intends to return to financial balance.	The Financial Recovery Plan for 2025/26 was endorsed by the NHS Grampian Board on 12 June 2025, a three-year Financial Recovery Plan to support the Board in returning to financial balance will be reported to the Board in October 2025. **Action Owner**: Director of Finance **Timescale for implementation:** October 2025
2. Baird and ANCHOR – Project Costs PAFIC and the Board are provided reports on the financial position of the projects, however we have noted that significant time has passed since overall project costs were last reported to members for scrutiny. The last time the overall capital costs were reported to the Board was in April 2023. We are aware that the capital costs of the project have changed significantly since April 2023. **Recommendation:** NHS Grampian should ensure that the up-to-date capital costs of the Baird and ANCHOR project are reported to both PAFIC and the Board in a timely manner.	Capital cost forecasts for the project are updated regularly and reported to the Project Board and Scottish Government. Formal reporting of an updated forecast to PAFIC and the Board will take place once certainty of scope is in place. **Action Owner**: Director of Infrastructure **Timescale for implementation:** TBC

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C. Action plan and recommendations – wider scope and best value (2)

Recommendation	Agreed management response
3. Response to escalation to Stage 4 In May 2025, NHS Grampian were escalated to Stage 4 of the NHS Scotland: Support and Intervention Framework due to rising concerns about local services and performance against national priorities and standards. The Scottish Government have commissioned an external diagnostic review to be completed which will focus on reviewing the current service delivery model and identifying newer and more efficient ways for NHS Grampian to deliver services in future years. **Recommendation:** NHS Grampian should set out at pace how it will respond to the recommendations made in the external diagnostic review and set out a clear timeline for responding to the issues identified.	Upon the received of the external diagnostic review report in July 25, the recommendations will be assessed and a programme to respond to the issues identified will be prepared and reported to NHS Grampian Board. **Action Owner**: Chief Executive **Timescale for implementation:** TBC
4. Assessment over the arrangements to secure Best Value The Accountability Report contains NHS Grampian's own assessment of the arrangements in place to secure Best Value. However, we have noted that the health board have no mechanism for formally reviewing and reporting on the arrangements to secure best value. **Recommendation:** NHS Grampian should undertake a formal review of the Best Value assurance framework and a complete an assessment of the board's arrangements to secure best value. The outcome of the assessment should be reported to the board.	A formal review against the Best Value assurance framework will be schedule for 2025/26 and over seen by ARC prior to reporting to the Board. **Action Owner**: Director of Finance **Timescale for implementation:** March 2026

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D. Follow up of prior year recommendations

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

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Plant and Equipment Disposals** During our test work for Plant and Equipment existence, we identified a control deficiency in management's asset tracking system. We found that for 3 out of the 5 assets tested, management had not properly disposed of the asset within the Fixed Asset Register (FAR). One had been disposed of before 31/03/2023 yet was still held in the opening FAR, one didn't have any supporting documentation for disposal in Jan 2024, and one is likely to have been disposed of but there is no evidence of disposal or initial ownership. There is a risk that plant and equipment assets are overstated in the accounts where management are not informed of disposal of assets. **Recommendation** It is important that management are able to ensure tracking of plant and equipment assets and appropriately inform finance on a timely basis of disposals to ensure this is correctly written out of the fixed asset register.	Process for Equipment Disposals highlighted in Global Daily Brief in October. Indications are that this has had some effect, with Services making contact with the Finance Asset Management Team about Disposals.	We performed targeted sample testing over Plant and Equipment opening balances and confirmed for all asset tested that they continued to exist and were appropriately held on the FAR. The finance team have taken steps to address the recommendation by reminding services of their responsibilities and the requirement to inform the finance team of any disposals.

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

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D. Follow up of prior year recommendations (2)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Valuation** We are satisfied that there is unlikely to be a materially different value if BCIS rates were used, however we are unable to corroborate that the DV/VOA's approach. If there was an error in their data or calculations, we have been unable to have the opportunity to identify. Whilst we are satisfied the value is not materially misstated as at 31/3/2023, we cannot give those charged with governance assurance that the estimation process will continue to produce materially accurate valuations. **Recommendation** Revisit instructions valuation provided to the valuer, to ensure that access to source data used by the valuers, is made available to auditors or that the valuer uses an industry standard approach to valuing land and buildings. Challenge and review the valuations provided by the valuer.	Agreement reached with National Audit Office and Montague Evans who accept the Valuers methodology. We understand that a Grant Thornton representative has been present at these meetings and as such aware of agreement and acceptance.	We have received confirmation via the National Audit Office that Montague Evans have confirmed that the DV/VOA has systems, guidance and training in place which ensures that valuers are appropriately qualified and have access to good quality information to undertake valuations of NHS assets. The correspondence with the National Audit Office provides actions that audit teams should undertake to confirm the validity of asset values. As part of our audit approach, we have carried out a re-calculation of build costs used to confirm that there is no material misstatement of asset values. Based on the fact NAO have deemed that DV/VOA's methodology is appropriate, and we have carried out a variety of checks to ensure the data used in the valuation of assets is suitable, we are satisfied that this recommendation has been addressed.

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D. Follow up of prior year recommendations (3)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Income from other NHS Scotland Bodies** Our testing identified £8.166 million of income from other NHS Scotland bodies misclassified within other operating expenditure (£5.935 million) and within Non-NHS other income. **Recommendation** Perform reconciliation between SFR 30 letters to the amounts recorded in the accounts to ensure the appropriate classification of transactions.	Reminder sent round to highlight move away from using certain account codes. Progress has been made on code mapping and justification provided around remaining coding used for specific costs.	We carried out a review of the reconciliation completed by the finance team between the SFR 30 letters and the accounts and confirmed that transactions has been classified appropriately.
Closed	**Buildings valuation – floor areas** Our work identified differences in floor areas between floor plans held by NHS Grampian and floor areas used in the valuation of buildings. This has resulted in an error in the building valuations. An unadjusted misstatement has been identified and reported in Appendix 1. **Recommendation** Perform a review of floor plans provided to the valuer to ensure these reflect the underlying assets.	This item completed in October 2024, with a physical and desktop review of areas. The floor areas have been updated, linked with the plans and uploaded into the new digital system.	We carried out sample testing over land and building valuations. In all cases, we agreed that the floor plan data used in the valuation agreed to the actual floor plans. Therefore, the valuation was based on the correct gross internal areas for the sample of assets reviewed. We also confirmed that there was no impact on the opening balances following the health board reviewing all floor area inputs used in the valuation calculations

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D. Follow up of prior year recommendations (4)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Debtors - Road Traffic Accidents (RTA)** RTA outstanding debt spreadsheet listing is manually prepared by NHS Grampian. This spreadsheet is used to determine the year end debtor and associated provision for inclusion in the accounts. A full list of outstanding debtor balances cannot be obtained from the NHS Injury Costs Recovery (ICR) website. There is a risk that the that the information within the spreadsheet is incomplete and not accurate, which is used to calculate the RTA outstanding debt accrual. **Recommendation** Take screenshots of the ICR website whilst updating the RTA outstanding debt spreadsheet listing to create an audit log.	All cases >5 years old that continue to be included in the accrual are now only those directly reflected within available CRU reporting extracts. A separate reconciliation report is also now prepared to set out any other cases paid, adjustments to recall payments previously made against closed cases, and any payments made at different rate to those within the CRU reporting.	We performed a review over the RTA debtor balance as part of our audit testing and can confirm that the debtor balances aged > 5 years included in the accrual are supported by appropriate evidence. Debtor balances which did not have suitable supporting evidence have been removed from the accrual.

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D. Follow up of prior year recommendations (5)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Nil net book value assets** The Board's draft asset register included £64.388million of assets (plant and equipment) with a nil net book value and are fully depreciated in the asset register. There are two risks in relation to this issue: • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and • if these assets are operational, there is a risk that the Board is not assigning appropriate asset lives to its plant and equipment assets. The potential impact of these risks is that the gross cost and accumulated depreciation disclosed within Note 7a Property, plant and equipment is overstated. There is no impact on the primary financial statements , which comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, and the Consolidated Statement of Cash Flows and the Consolidated Statement Changes in Equity. **Recommendation** Perform a detailed review of their Useful Economic Lives policy and updated where appropriate. Embed a formal process for reviewing assets which have outlived their Useful Economic Lives on an annual basis, to ensure the assets are still in existence.	Verification exercise for 24/25 complete and all remaining assets with nil NBV have been assessed against the policy for removal from the FAR where this allows. A further verification exercise will be undertaken in 25/26.	The health board continue to have a material amount of plant and equipment assets at a gross book value of £42.610 million held on the asset register at nil net book value. The health board have reviewed their accounting policy and confirmed an asset will remain on the FAR beyond the end of an asset's useful life where a service has verified it continues to be in use. If an asset hasn't been verified, it will be removed after five years of the UEL expiring. NHS Grampian now perform the asset verification exercise and no equipment in excess of 5 years beyond its expected UEL will be held on the FAR where no physical verification has been possible/verification forms have not been returned We carried out sample testing over the assets held at Nil net book value and found that some assets no longer in use were still held at Nil NBV on the FAR. This was due to not at all assets being included in the most recent asset verification exercise. We recommend that NHS Grampian ensure all Nil NBV assets are included in the asset verification exercise as a matter of course.

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D. Follow up of prior year recommendations (6)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
In Progress	**Cyber security** Internal audit undertook a review of NHS Grampian's review on Ransomware which resulted in four high risk findings and a critical rated report. There is a significant risk of cyber-attacks to public bodies. It is essential appropriate cyber security arrangements are in place. Incidents can have a significant impact on both the finances and operation of an organisation. **Recommendation** Implement the recommendations from this report as soon as possible with appropriate monitoring arrangements put in place.	We continue to make progress against the recommendations and the current actions are being reviewed and external support requested to ensure we are able to implement new processes to manage the risk. A tracker of corresponding actions has been developed by the Digital Service and Internal Audit are meeting monthly with the service to monitor progress New governance and policies will be implemented by end of Q2 25/26.	The health board are making progress towards implementing the recommendations raised by Internal Audit but recognise there is still work to be done. An action plan is in place to address high risk recommendations raised in previous internal audit reviews and Internal Audit are monitoring the health board's progress. Updates on progress are also provided to the Audit and Risk Committee to ensure oversight. This recommendation remains valid.

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D. Follow up of prior year recommendations (7)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open	**Use of Resources to Improve Outcomes- Baird and ANCHOR (1)** Board papers in April 2023 noted that the NHS Grampian Audit and Risk Committee would receive a summary report after all key issues are resolved to review risk management and derive lessons for future projects. Our review of documents and attendance at the Audit and Risk Committee meetings found that a review of risk management and lessons learned from the Baird and ANCHOR projects has not yet been presented to the committee. Board public paper 06/04/2023. **Recommendation:** We recommend that this action, as outlined in last year's Board papers, be prioritised and reviewed by the Audit and Risk Committee.	Report scheduled for Audit and Risk Committee in Autumn 2025 following the conclusion of the design resolution process about that process and balance of risk analysis used to make the decision, in order to get assurance on the process and note any lessons learned for future projects The Project Manager maintains a lessons learned register, set up in line with the SCIM (Project Monitoring & Service Benefits Evaluation) guidance for the project which continues to capture key events and matters that have impacted on project costs, quality standards, or programme. This lessons learned register is updated as part of the agenda within the soft landings meetings and Project Senior Management Team meetings. Items captured within each meeting are added to the register and key issues are brought to Project Board for awareness (November 2024 update paper). As each building emerges to completion, a multi stakeholder workshop will be chaired by an independent facilitator/reviewer to discuss and agree the lessons learned/best practice as part of the post project evaluation.	The lessons learned report has yet to be finalised as the Baird and ANCHOR projects are still in development. Therefore, it would not be expected that this recommendation would be actioned during 2024/25. NHS Grampian should ensure the lessons learned report is prepared and presented to the Board once the construction of both buildings has been completed. This recommendation remains valid.

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

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D. Follow up of prior year recommendations (8)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open	**Use of Resources to Improve Outcomes- Baird and ANCHOR (2)** Discussions with senior members of the project team has identified that a re-review of benefits included within the business cases of the capital projects has not been performed since the business cases were developed. The project team is currently assessing design changes and their impact before factoring in benefits realisation. Design changes may necessitate adaptations to clinical practices, requiring a reassessment of the proposed benefits. **Recommendation:** We recommend that the project team revisit the proposed benefits outlined in the business case. It is essential to determine whether these benefits remain achievable or if they need to be amended and updated due to the passage of time or potential design changes.	Interim review carried out June 2025 of the benefits realisation plan for both ANCHOR Centre and Baird Family Hospital. This is based on anticipated completion dates for both buildings. There has been no change to the benefits register arising from the scope changes for both buildings. A final review will be carried out shortly which will encompass updates from a clinical perspective. The timeline of measuring the benefit against the original target will continue through occupation with an intention to conclude six months after service commencement. The project team will conduct quarterly reviews of the Benefits Register & Realisation Plan which will help to ensure that progress against project milestones is monitored and evidenced, and benefits are on track to be realised in the agreed timescales. This will be a standing agenda matter for reporting progress to the Project Board from July onwards.	Due to the ongoing delays, the review of the proposed benefits has not yet taken place. The health board believe the overall benefits of project haven't changed, however there have been additions to the project which were not part of the original scope which could expand the overall benefits realised. However, the full impact will not be known until the review is completed. This recommendation remains valid.

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D. Follow up of prior year recommendations (9)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed (Superseded)	**Financial Sustainability (1)** NHS Grampian has a forecast overspend for 2023/24 and outlines concerns over the future financial sustainability of the health board where additional funding is not provided. **Recommendation** Closely monitor the financial position and savings programme to ensure any slippage in the budget is quickly responded to and further possible savings that can be identified.	Enhance monitoring arrangements embedded with Financial Performance Reporting at standing item for NHS Grampian Board.	NHS Grampian have arrangements in place to monitor the financial position throughout the financial year. NHG Grampian forecasted a significant deficit position for 2024/25 from the outset and provided regular progress updates throughout the financial year. The health board over-achieved against planned savings during 2024/25 but must deliver a substantial level of savings in future years to achieve financial sustainability. We have raised a recommendation on NHS Grampian's financial recovery planning, meaning this recommendation has been superseded.
In Progress	**Financial Sustainability (2)** NHS Grampian has high supplementary staffing costs and staff turnover. A Workforce Action Plan has been implemented for tracking progress. **Recommendation** Continue to monitor progress made against action plans and workforce plans to ensure there is a depth of pace to improving performance in this area.	Progress against the Workforce Action Plan, actions were report via Value and Sustainability Programme in 2024/25. These are part of our Financial Recovery Plan and will be progressed and reported via this structure in 2025/26.	NHS Grampian are aware that historically, expenditure on agency costs has been unsustainable and have made efforts to reduce expenditure on agency staff. Total expenditure on agency staff decreased by £9 million in 2024/25, and the health board is continuing to look at ways to reduce the reliance on agency nursing and medical locums.

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D. Follow up of prior year recommendations (10)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Financial sustainability – Baird and ANCHOR Centre** Forecast revenue costs for the project have remain unchanged since the approval of the FBC. Given the level of inflation 2018, there is a risk that these costs will have increased. **Recommendation** Ensure forecasts for the Baird and ACHOR Centre remain accurate through regular review of all capital and revenues components of the project.	Revised running costs for both buildings have been refreshed and built into Financial Plans from 2025/26. Work is ongoing with Infrastructure and Family services to understand the risks of recruiting to the FBC staffing levels. Assumptions on energy consumption will continue to be reviewed.	The health board have refreshed the financial plans for the Baird and ANCHOR Centre, which included revised forecast revenue costs for the project. We noted that elements of the revenue costs had risen considerably since initial estimates and the health board should continue to monitor these costs as the project progresses to its conclusion.
Closed	**Financial management** Given the challenging financial position for NHS Grampian over the next five years, to allow appropriate oversight, challenge and scrutiny of NHS Grampian's financial position by the PAFIC and Board detailed and regular financial reporting should be provided. **Recommendation:** Ensure regular financial reporting to PAFIC and the Board. Review the format of financial reports provided to committee and Board to provide a high-level summary supported by more detailed information and clear explanations for significant variances.	Finance Report is a standing agenda item at the Board	The health board have addressed the recommendations raised. Finance Reports are now presented to the Board at each meeting and ensure Board members have oversight over the financial position throughout the year. Furthermore, additional context has been added to financial reports to provide clear reasoning for significant variances within the budget.

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E. Audit fees, ethics and independence

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are require or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Board's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Board's Ethical Standard.

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity, and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, there are no independence matters that we would like to report to you.

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

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

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E. Audit fees, ethics and independence (2)

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats. None of the below services were provided on a contingent fee basis.

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

The final audit fee includes additional audit fee of £20,040, which has been agreed with the Director of Finance. The planned audit fee included an additional fee for enhanced audit procedures required due to new ISA600 – Group auditing standard, as well as our follow up of recommendations raised in the previous two years' audits. The final audit fee includes a further additional fee due to the increased work required on wider scope due to NHS Grampian's move into Stage 4 of the Scottish Government's escalation framework.

The Annual Audit Report will be considered by the Audit and Risk Committee on 24 June 2025 and Board on 27 June 2025 including agreement of audit fees.

External audit fee

Service	Planned Fees	Final Fees
External Auditor Remuneration - Baseline	£225,670	£225,670
Additional External Auditor Remuneration	£3,740	£20,040
Audit Scotland Pooled Costs	£23,390	£23,390
Sectoral cap adjustment	£15,920	£15,920
2024/25 Audit Fee	**£268,720**	**£285,020**

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

- Fees per financial statements £285,000
- Total fees as above £285,020

Fees for other non-audit services

Service	Fees £
We confirm that for 2024/25 we did not receive any fees for non-audit services	Nil

The final audit fee reconciles to the initial Audit Scotland planned fee as follows:

- Audit Scotland initial fee £264,980
- Additional audit fee per Audit Plan £3,740
- Additional audit fee for wider scope £16,300
- Final audit fee £285,020

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F. Client Service Review

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner, 8 Finsbury Circus, London, EC2M 7EA. If you feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets our details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2024 (grantthornton.co.uk).

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G. Communication of audit matters

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

Our communication plan	Audit Plan	Annual Report (ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of NHS Grampian's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

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