KPMG

National Waiting Times Centre Board (also known as the NHS Golden Jubilee)

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

14 July 2023

Key contacts

Your key contacts in connection with this report are:

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Introduction

To the Audit Committee of National Waiting Times Centre Board

We are pleased to have the opportunity to meet with you on 30 June 2023 to discuss the results of our audit of the consolidated financial statements of National Waiting Times Centre Board (the 'Board'), as at and for the year ended 31 March 2023.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 19 April 2023. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is now complete. There have been no significant changes to our audit plan and strategy.

We have issued an unmodified Auditor's Report on the financial statements and have not identified any significant weaknesses in relation to our Wider Scope work.

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

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

Yours sincerely,

Rashpal Khangura

14 July 2023

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

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

– **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and

– All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

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

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

Important notice

Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of National Waiting Times Centre Board (the 'Board'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Annual Accounts Manual, as at and for the year ended 31 March 2023. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

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

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

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy.

(under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Status of our audit

Our audit is now complete.

National Waiting Times Centre Board

Materiality Group and Board

Total gross expenditure
£200m

Group materiality
£4m
2% of gross expenditure

Board materiality
£3.9m
2% of gross expenditure

Group: £200k
Board: £195k

Misstatements reported to the Audit and Risk Committee

Group: £2.6m
Board: £2.53m

Procedure designed to detect individual errors at this level

Group: £4m
Board: £3.9m

Materiality for the financial statements as a whole

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of gross expenditure which we consider to be appropriate as it reflects the scale of the Board's services and we consider this most clearly reflects the interests of users of the Board's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality £2.6m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Group materiality vs other metrics

2022/23

Total assets	**1.5%**
Total liabilities	**7.4%**

Our audit findings

Significant audit risks	Risk Change	Findings (Pages 8-11)
Valuation of Land & Buildings	No Change	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have identified an issue in relation to the hotel valuation and this is discussed in more detail on page 9.
Fraud risk from expenditure recognition	No Change	We identified a number of misstatements relating to accruals that are documented in appendix three. We also identified recommendations relating to accruals that can be seen in appendix two. We did not identify any other significant issues in relation to fraud risk from expenditure recognition.
Management override of controls	No Change	We have not identified any instances of management override of controls.
Key accounting estimates	**Judgement**	**Findings (Page 12)**
Valuation of Land & Buildings	Neutral	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have identified an issue in relation to the hotel valuation and this is discussed in more detail on page 9.

Key audit matters
We set out above those areas which we considered to be key audit matters, in this case, valuation of land & buildings. The reason, response and related disclosures are summarised within the detail of this report.

Wider scope (Pages 16-21)
Under the Code of Audit Practice we are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit. We are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that we have done. Where significant risks are identified we will make recommendations for improvement. We have nothing to report in this respect.

Consolidation schedules (Page 14)
We intend to issue an unqualified Group Audit Assurance Certificate to Audit Scotland regarding the Consolidation schedules submission, made through the submission of the summarisation schedules to Scottish Government.

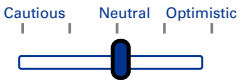
Our audit findings

Uncorrected Audit Misstatements		Page 33
Understatement/ (overstatement)	**£m**	**%**
Revenues	-	-
Expenditure	(1.052)	0.5
Total assets	(0.133)	0.05
Total liabilities	(1.185)	2.2
Reserves	-	-

Corrected Audit Misstatements		Pages 34-35
Understatement/ (overstatement)	**£m**	**%**
Revenues	-	-
Expenditure	(2.28)	1.1
Total assets	(4.87)	1.8
Total liabilities	(8.0)	15.7
Reserves	0.85	0.4

Number of Control deficiencies	Pages 25-32
Significant control deficiencies	-
Other control deficiencies	12
Prior year control deficiencies remediated	-

Audit risks and our audit approach



Valuation of land and buildings

Significant audit risk

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

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

The value of the Board's land and buildings at 31 March 2023 is £126.7m, of which £117.2m was valued as specialised assets at depreciated replacement cost.

The Board undertook a full revaluation of its land and buildings in year as it does annually.

Our response

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

Control design:

– We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;

Assessing the valuer's credentials:

– We critically assessed the independence, objectivity and expertise of Avison Young, the valuers used in developing the valuation of the Board's properties at 31 March 2023;

– We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Government Financial Reporting Manual (FReM);

Input assessment:

– We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified;

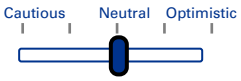
Assessing methodology and benchmarking assumptions:

– We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement;

– We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of RICS and the FReM;

(Continued)

Audit risks and our audit approach



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

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The Board undertook a full revaluation of its land and buildings in year as it does annually.

Our response (continued)

– We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the FReM;

– We utilised our own valuation specialists to review the valuation report prepared by the Board's valuers to confirm the appropriateness of the methodology utilised; and

Assessing transparency:

– Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

We have reviewed the data, assumptions and methodology involved in management's valuation of land and buildings and confirmed these were appropriate for the hospital estate. In respect of the hotel our audit procedures and challenge to management and their expert led to a new valuation report being issued which updated the valuation basis of the hotel to current value in existing use and resulted in an increased valuation of £850k. Our audit also identified a number of process points regarding engagement with a management expert in the valuation of the land and buildings. Specifically there was:

- Limited documentation around the use of a separate (sub-contracted) hotel valuer's involvement in the valuation process and their expertise in this area; and
- Lack of documentation of key management dialogue and outcomes, including:
  - Agreeing appropriate basis of value;
  - Justifying the judgement as non-specialised; and,
  - Documenting how the service potential of the asset has been assessed.

We did not identify any other significant issues in relation to valuation of land and buildings.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Significant audit risk

Risk: Liabilities and related expenses for purchases of goods or services are not completely identified and recorded

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

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

We consider this would be most likely to occur through understating accruals at the year end, for example to push back expenditure to 2023-24 to mitigate financial pressures.

Our response

We performed the following procedures designed to specifically address the significant risk:

- We evaluated the design and implementation of the controls in place for manual expenditure accruals;
- We inspected a sample of invoices of expenditure, in the period around 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period;
- We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accrual had been completely recorded;
- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2022 and consider the impact on our assessment of the accruals at 31 March 2023. We also compared the items that were accrued at 31 March 2022 to those accrued at 31 March 2023 in order to assess whether any items of expenditure not accrued for as at 31 March 2023 have been done so appropriately.

Our findings

We identified a number of misstatements relating to accruals that are documented in appendix three. We also identified recommendations relating to accruals that can be seen in appendix two. We did not identify any other significant issues in relation to fraud risk from expenditure recognition.

Audit risks and our audit approach

Management override of controls

Significant audit risk

The risk

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

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

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

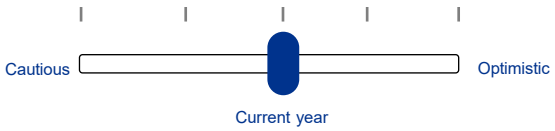
Our response

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

Our findings

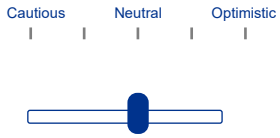
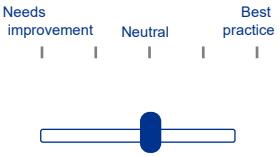
- We identified 71 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries. We have raised a recommendation in relation to journals segregation of duties on page 26.
- We evaluated accounting estimates and did not identify any indicators of management bias. See page 12 for further discussion.
- We did not identify any significant unusual transactions.
- We did not identify any issues from our related parties testing.

Key accounting estimates – Overview



Our view of management judgement

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

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Assets Valuation of land & buildings		**126.7**	**5.0**		We involved KPMG valuation experts to assess the assumptions underpinning the valuation of the hotel. Assumptions were found to be neutral. We have raised a recommendation on valuation of land and buildings process, see page 30.

Other estimates

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

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

Group involvement – significant component audits

Involvement in group components

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

- National Waiting Times Centre Board
- National Waiting Times Centre Board Endowment Fund

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

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

Other matters

Annual report

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

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Board's performance, business model and strategy;
- The parts of the Remuneration Report that are required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page 4; and
- The report of the Audit and Risk Committee included in the Annual Report includes the content expected to be disclosed as set out in the Annual Accounting Manual and was consistent with our knowledge of the work of the Committee during the year.

Delay to the audit

We experienced a number of delays in relation to the timetable to provide the accounts and provision of initial working papers and this has led to a delay in the audit.

The year end timetable (presented to Audit and Risk Committee) highlighted the first draft of accounts were due for 02 May 2023 however we did not receive the initial version until 12 May 2023 (which had some small gaps and a known issue which officers identified to us) and we then received a more final draft on 17 May 2023. We understand that part of this delay was due to issues with the template provided to the Board by Scottish Government.

We received the final draft version of the Trial Balance on 17 May 2023 (this was the fifth version of the Trial Balance we had received) and a final transaction list on 18 May 2023 (this was the fourth version of the transaction listing we received). Whilst we acknowledge that we did receive some initial working papers from the Board in late April and early May, only once the final versions of the Trial Balance, transaction list and draft accounts were provided on 17th and 18th May (which reconciled) were we then able to commence the transaction testing element of our audit due to the nature of our sampling approach.

We have raised one recommendation in respect of these issues.

Consolidation schedules

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

Other matters

Independence and Objectivity

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

Audit Fees

The fee for the audit was £86,860 (Source: Audit Scotland). We have not completed any non-audit work at the Board during the year. We note we have had discussions with management regarding the additional fee associated with the delays and level of audit misstatements, we will confirm this fee shortly after the conclusion of the audit.

Wider Scope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit.

Auditors should consider these additional requirements when:

• identifying significant audit risks at the planning stage

• reporting the work done to form conclusions on those risks

• making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

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

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

• governance and transparency dimension has been replaced with vision, leadership and governance area

• value for money dimension has been replaced with use of resources to improve outcomes.

Commentary on arrangements

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

• Financial Management – Page 17;

• Financial Sustainability – Page 18;

• Vision, Leadership and Governance – Page 19; and

• Use of Resources to Improve Outcomes – Page 20

• Climate Change – Page 21

Summary of findings

We have not identified any significant weaknesses in the Board's arrangements in these areas.

Wider Scope arrangements

Financial Management

Scope

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

Areas of Focus

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

Findings and Conclusion

There are appropriate arrangements in place to ensure an effective system of internal control as financial rules are set out in the Board's Standing Orders and Standing Financial Instructions.

The budget control system is effective, budget holders have access to monthly reports in order to appropriately monitor budget information.

The latest monthly finance report goes to each Board meeting and we note that there is adequate budget monitoring and reporting to monitor against financial targets.

Annually, the Board prepares a financial plan that is reviewed internally before being shared with Scottish Government. This highlights the savings plans for the year.

The Board's finance team have the appropriate capacity and skills in relation to Financial Management.

We have not identified any significant risks or significant weaknesses relating to financial management.

Wider Scope arrangements

Financial sustainability

Scope

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

Areas of Focus

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

Findings and Conclusion

Our audit plan noted that we had identified one risk regarding financial sustainability. The Board have now finalised their 3 year financial plan. We have reviewed the financial plan and arrangements in place to ensure any short term financial challenges and longer term financial sustainability objectives are achieved. We have reviewed the extent to which any savings plans have been developed and the Board arrangements in place to deliver these.

We understand that the Board are in the early stages of developing a savings programme, which is a high level plan based on key themes and currently has £3.35m savings schemes planned or in the pipeline for 2023/24, with £3.3m of savings currently unidentified.

Financial recovery is monitored as part of the monthly budget holder reports and monthly finance reports that go to the Finance and Performance Committee (FPC) and Board meetings.

Capital plans for 2023/24 are mentioned in the 3 year financial plan, with the value of the plan awaiting confirmation from Scottish Government.

We have not identified any further significant risks however, the fact the Board has not yet made significant progress with identifying savings represents a significant challenge as the later into the financial year these savings are not identified – the greater the risk savings will not be achieved.

Wider Scope arrangements

Vision, Leadership and Governance

Scope

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

Areas of Focus

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

Findings and Conclusion

The Board Strategy is currently for 2019-2022. We understand that this is currently under review and was delayed due to the pandemic pressures. We have raised a recommendation at appendix two. The Board have an Annual Delivery Plan (ADP) in place for 2022/23 that set out the priorities and delivery objectives for the year. An ADP is in draft for 2023/24 and has been presented to Board, which we understand will be used as a base for the Strategy refresh.

Operational performance of services is reported in the Integrated Performance Reports under the headings Clinical Governance, Staff Governance and Finance, Performance and Planning. KPI's are monitored and reviewed as a result of this.

We identified that the risk register policy and process has a review date of January 2023 and has not yet been updated, which we understand was held up but the revised policy is due for approval in July 2023. We have raised a recommendation in appendix two.

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

Wider Scope arrangements

Use of Resources to Improve Outcomes

Scope

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

Areas of Focus

- the arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered
- the arrangements in place to assess whether outcomes are improving based on the trend and relative to pace of change in comparable organisations, and appropriate to the risk and challenges facing the Board
- the arrangements in place to consider cost of delivery of current services and whether alternative models of service delivery been considered.
- the arrangements to evaluate service delivery and quality and whether the user needs and views are included in any such evaluation.

Findings and Conclusion

We reviewed business cases completed in 2022/23 for capital projects, which shows that service improvements are outlined to explain the reason for the projects taking place.

Integrated Performance Reports are produced and reported to Board, which shows that performance is appropriately reported and monitored.

We have seen that activity comparisons take place, to benchmark services against each other and against previous years.

The Board also utilise external data to perform external benchmarking, using data that comes from an NHS Scotland system to allow comparison against other NHS Scotland Boards.

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

The Board has effective internal processes in place to follow up the NFI matches that have been identified.

Wider Scope arrangements – National Risk Assessment

Climate Change

Background

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

Findings and Conclusion

The Board has an Environmental and Sustainability Strategic Plan, an Annual Delivery Plan and Medium Term Plan in place. It monitors and reports progress towards meeting emission targets via the Annual Climate Emergency and Sustainability Report internally to the Finance and Performance Committee and via the Public Bodies Climate Change Duties Compliance Reporting Template - Climate Change Report externally.

Appendices

Appendix one

Mandatory communications

Type		Statement
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2023.
Adjusted audit differences		Appendix 3 identifies 9 adjusted audit differences. Whilst a number of these would have resulted in significant underspends against the Core Revenue Resource Limit (RRL) and Core Capital Resource Limit (CRL), the Board has also had reductions in the RRL and CRL meaning that reported underspends against both limits have not changed significantly.
Unadjusted audit differences		The aggregated impact on the reported surplus of unadjusted audit differences would be £1,052k, resulting in a higher underspend. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See appendix 3.
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies		We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts		No actual or suspected fraud involving group management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Appendix one

Mandatory communications

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

Appendix two

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are as follows:

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

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	**Accounts preparation - Issue** As per the year end timetable, we were anticipating receiving the financial statements on 2 May 23. We did not receive a version of the financial statements that mapped to a trial balance and full transaction list until 17 May 23. We understand that part of this delay was due to issues with the template provided to the Board by Scottish Government. **Risk** There is a risk that the deadline for submitting signed annual report and accounts is not met due to delays in receiving information. **Recommendation** We recommend that management revisit its accounts preparation plan in advance for 2023/24 to ensure arrangements are updated, including revising timelines (if required) to ensure its accounts preparation plan is appropriate. We recommend this is completed in-conjunction with reviewing external audit working paper requirements therefore enabling the audit to start on time.	**Accepted** While there was an issue with the national template we acknowledge that key dates within the planning timeline presented to Audit and Risk Committee were not met. A number of factors contributed to KPMG receiving the financial information late. However, it is accepted that improvements in planning, processes, training and leadership are required for the preparation of the 2023/24 statements. To achieve this, KPMG and Finance Management will have a debrief session to identify and document the key issues. Finance Team sessions are already being planned by the Director of Finance / Depute Director of Finance with the full Finance Team to ensure the lessons learned and support required is in place for 2023/24 to address these key issues identified. **Responsible Officer(s): Director of Finance / Depute Director of Finance** **Completion Date: September 2023**

Appendix two

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	2	**Journals segregation of duties - Issue** From inquiry of management and our journals walkthrough we identified that users of the general ledger have the ability to post and approve their own journals within their own authorisation limits. **Risk** There is a risk that there is no segregation of duties. Whilst senior members of the finance team may perform review of journals, this is not fully documented. **Recommendation** We recommend that management implement a fully documented review of any journals posted and approved by the same user.	**Accepted** The national ledger system which is used by all NHS Boards in Scotland does allow users to post and approve their own journals within respective authorisation limits. While this is not routine practice (with a system warning generated) it is accepted that this is possible. No weaknesses were identified and reviews of journals are carried out as current practice. However, a documented process will be put in place to ensure that the segregation of duties being posting / authorisation is formally communicated. **Responsible Officer(s): Depute Director of Finance** **Completion Date: July 2023**
3	2	**Impairment review - Issue** There is no documented impairment review completed by management with estates involvement. **Risk** There is a risk that property, plant and equipment is overstated if there are impairment indicators that have not been identified and reviewed. **Recommendation** We recommend that management complete an annual impairment review with estates involvement, that is formally signed off.	**Accepted** An impairment review will be undertaken for 2023/24 with appropriate input from other service functions within NHS Golden Jubilee. **Responsible Officer(s): Assistant Director of Finance-Governance and Financial Accounting** **Completion Date: by March 2024**

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
4	3	**Asset verification - Issue** There has not been an asset verification exercise completed by management in 2022/23 **Risk** There is a risk that property, plant and equipment is overstated if there are assets on the asset register that are no longer in use or no longer exist. **Recommendation** We recommend that management complete annual asset verification checks and update the fixed asset register accordingly.	**Accepted** A formal annual asset verification checks and required updates to the fixed asset register will be completed for the preparation of the 2023 Annual Report and Accounts. **Responsible Officer(s): Assistant Director of Finance-Governance and Financial Accounting** **Completion Date: by March 2024**
5	2	**Payroll starters, leavers and amendments - Issue** We note that there are appropriate processes in place to add new starters, remove leavers and process amendments to payroll, however there is not always an audit trail in place to retain the relevant documentation. **Risk** There is a risk that the payroll is not accurate if there is a risk that starters, leavers and amendments are not appropriately processed. **Recommendation** We recommend that all relevant paperwork be retained in relation to starters, leavers and amendments to HR and payroll, in order to ensure an audit trail is available to review and evidence this process. The Board should also ensure that IT access is removed on a timely basis for leavers.	**Accepted** While the recommendation does acknowledge that appropriate processes are in place the current process will be reviewed to ensure the control risk is mitigated by way of increased audit trail evidence. **Responsible Officer(s): Director of Finance / Director of Workforce** **Completion Date: September 2023**

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
6	3	**Key estimates and judgements - Issue** The financial statements contain a number of key estimates and judgements, which if not appropriately applied can lead to significantly different entries in the financial statements. **Risk** Whilst we acknowledge that the accounting policies went to Audit Committee on 19 April 23, we have not been able to identify where Board or Audit Committee consider these before the preparation of the financial statements (prior to 31 March). **Recommendation** We would recommend that management produce annual papers for Board or Audit Committee discussion and approval setting out their approach to key judgements and estimates, for example going concern and valuation of property plant and equipment, prior to the preparation of the financial statements commences.	**Accepted** The Accounting Policies were presented to the Audit and Risk Committee at their meeting on 19 April 2023. Note 28 within Appendix 1 which refers to key sources of judgement and estimation uncertainty was highlighted as requiring to be updated. The rationale for this approach is that this note to the Accounts should be specific to issues NHS Golden Jubilee wishes to draw the reader's attention to as well the Director of Finance wishing to review similar notes in other NHS Boards to ensure appropriate disclosure of key points. The Accounting Policies were included in full within the Annual Report and Accounts draft scrutinised by Audit and Risk Committee on 15 June 2023. Notwithstanding the above as part of the Annual Accounts process for 2023/24 the full set of Accounting Policies will be presented to Audit and Risk Committee for their consideration and approval at the meeting preceding the 31 March 2024. **Responsible Officer(s): Director of Finance / Depute Director of Finance** **Completion Date: February 2024**

Appendix two

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
7	2	**Management review control for valuation of land and buildings - Issue** Auditing standards require Auditors to identify a management control where there is a significant audit risk. In the case of the valuation of land and buildings risk we have not been able to identify a management control. **Risk** There is a risk that management are not content with the methodology and assumptions used by the valuer. **Recommendation** We recommend that should management wish to meet this requirement, they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the valuation of land and buildings held by the Board.	**Accepted** A number of learning points have arisen for both Management and KPMG in relation to the valuation for the NHS Golden Jubilee Conference Hotel. More formal engagement between Management and our Professional Valuer for 2023/24 will be undertaken to scope out more clearly the requirements. **Responsible Officer(s): Assistant Director of Finance-Governance and Financial Accounting** **Completion Date: by March 2024**
8	2	**Management review control for accruals - Issue** Auditing standards require Auditors to identify a management control where there is a significant audit risk. In the case of the accruals process we have not been able to identify a management control. **Risk** There is a risk that accruals are not completely and accurately recorded. **Recommendation** We recommend that should management wish to meet this requirement, they will need to implement formally documented controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded.	**Accepted** A comprehensive review will be completed and formal documentation agreed for all staff within the Finance Team to reinforce the process and expected standards of substantiation of year end accrual entries. Management authorisation of year end accruals will also be built into the process to ensure consistency and senior responsibility. **Responsible Officer(s): Depute Director of Finance** **Completion Date: September 2023**

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
9	2	**Valuation of land and buildings process - Issue** We noted a number of process point regarding engagement with a management expert in the valuation of the land and buildings. Specifically there was: Limited documentation around the use of a separate (sub-contracted) hotel valuer's involvement in the valuation process and their expertise in this area; and • Lack of documentation of key management dialogue and outcomes, including: ○ Agreeing appropriate basis of value; ○ Justifying the judgement as non-specialised; and, ○ Documenting how the service potential of the asset has been assessed. **Risk** There is a risk that prior year approaches are rolled forward each year rather than full consideration to all of the relevant factors. **Recommendation** We recommend that the Board considers these points in their approach to the engagement with a management expert.	**Accepted** A number of learning points have arisen for both Management and KPMG in relation to the valuation for the NHS Golden Jubilee Conference Hotel. More formal engagement will be undertaken between Management and our Professional Valuer for 2023/24 to scope out more clearly the requirements set under the FreM including the specific points included within this recommendation. **Responsible Officer(s): Assistant Director of Finance-Governance and Financial Accounting** **Completion Date: by March 2024**

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
10	2	**Capital accruals accounting - Issue** We identified that the goods received but not yet invoiced accruals contained a number of capital transactions that had been fully accounted for in year, when in fact all of the related work had not yet been completed or assets had not been received by 31 March 23. **Risk** There is a risk that property, plant and equipment is overstated and not accounted for in the correct year. **Recommendation** We recommend that management revisit and update their processes and procedures to ensure that capital transactions are accounted for in the year that assets are received or the year that the work takes place.	**Accepted** While an issue was indeed identified by KPMG through a sample of accruals and upon escalation of an issue to the Depute Director and then to Director of Finance it became evident that the historic approach to year end capital accruals based on 'commitments' did not meet the Director of Finance's view of adherence to relevant accounting standards. As such, a full review of 2022/23 accruals was requested with backup. After completion, a number of items accrued were not supported by the Director of Finance/ Depute Director of Finance and as such were removed by the Financial Accounts Team upon instruction. A documented process will be completed and the current structure of capital monitoring within NHS Golden Jubilee will be reviewed. **Responsible Officer(s): Depute Director of Finance** **Completion Date: August 2023**

Appendix two

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
11	3	**Board Strategy - Issue** We identified through our Wider Scope work that the Board Strategy expired in 2022. We understand that this is currently under review and was delayed due to the pandemic pressures. **Risk** There is a risk that the Board Strategy is not up to date and relevant. **Recommendation** We recommend that the Board Strategy for future years is developed in line with the new timetable in place by the Board.	**Accepted** A timeline for the development of a new Board Strategy has been agreed. Work is on-going to complete this. **Responsible Officer(s): Director of Strategy, Planning and Performance** **Completion Date: July 2023**
12	3	**Risk Register Policy and Process - Issue** We identified through our Wider Scope work that the Risk Register Policy and Process was due for review in January 2023 and therefore has expired. We understand that this is currently under review and due for approval in July 2023. **Risk** There is a risk that the Risk Register Policy and Process is not up to date and relevant. **Recommendation** We recommend that the Risk Register Policy and Process is regularly reviewed in line with the timelines that are set by the Board to ensure it is relevant and accurate.	**Accepted** Work is currently ongoing to review the Risk Register in line with previous recommendations accepted through an Internal Audit report. In addition, a Board Seminar is planned for August 2023 for Members consideration of Risk Appetite and approach to Risk Management **Responsible Officer(s): Director of Finance** **Completion Date: September 2023**

Appendix three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Risk Committee, details of all adjustments greater than £195k are shown below:

Unadjusted audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Accruals	-	964	Through our accruals testing, we found transactions that had been accounted for as 22/23 expenditure, however from the evidence reviewed we believe this should have been accounted for as 23/24 expenditure. This relates to three different projects for £603k, £181k and £180k respectively.
	Cr Other Operating Expenditure	(964)	-	
2	Dr Accruals	-	221	Through our testing of goods received but not yet invoiced accruals, it was identified that VAT is automatically applied to purchase orders however VAT is not always applicable. The Board have completed an analysis and conclude that it is only NHS transactions and foreign transactions that this impacts. This creates an overstatement of accruals.
	Cr Other Operating Expenditure	(221)	-	
3	Dr PPE – Plant and Machinery	-	671	Through our testing of Assets under Construction, it was identified that £933k of the balance related to assets that were completed and should have been transferred to Property, Plant and Equipment (PPE) assets in use. The Board have calculated that this would have resulted in an additional £133k of depreciation charged in 22/23.
	Dr PPE – Information Technology	-	262	
	Cr PPE – Assets under Construction	-	(933)	
	Dr Other Operating Expenses - Depreciation	133	-	
	Cr PPE - Depreciation	-	(133)	
Total		(1,052)	1,052	

Appendix three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£'000s)				
No	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	Dr Other Operating Income	207	-	In the consolidated income note, we found that Endowment Fund income was included within Other Operating Income rather than being split out on the Endowment Fund Income line.
	Cr Endowment Fund Income	(207)	-	
2	Dr Accruals	-	2,280	Through our accruals testing, we found transactions that had been accounted for as 22/23 expenditure, however from the evidence reviewed we believe this should have been accounted for as 23/24 expenditure.
	Cr Other Operating Expenditure	(2,280)	-	
3	Dr Accruals	-	463	Through our accruals testing, it was identified that deferred income was incorrectly classified as accruals.
	Cr Deferred Income	-	(463)	
4	Dr Other Receivables	-	635	We identified a classification error within the receivables note of the financial statements.
	Cr Accrued Income	-	(635)	
5	Dr Accruals	-	4,470	Through our testing of goods received but not yet invoiced accruals, it was identified that accruals contained a number of capital transactions that had been fully accounted for in year, when in fact all of the related work had not yet been completed or assets had not been received by 31 March 23. Management considered our findings and undertook some further work to identified the extent of the issues regarding capital accruals. In total adjustments of £2,969k have been made. There is also a £1,501k balancing accrual for a project started in previous years that is incorrectly accounted for in the same nature as above.
	Cr Property, Plant and Equipment	-	(4,470)	

Appendix three

Audit Differences

Adjusted audit differences (£'000s)				
No	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
6	Reduction in Core Revenue and Capital Resource Limits	N/A	N/A	The Scottish Government has issued revised allocations as a result of the issues identified in the adjustments 2 and 5 above. This has reduced Core Revenue Resource Limit by £2,280k and reduced Core Capital Resource Limit by £2,969k.
7	Dr Property, Plant and Equipment Cr Gain on revaluation of property, plant and equipment	- (850)	850 -	We challenged the valuation of the hotel with Avison Young and as a result they reissued their valuation report. The resulting impact was an increase in value of £850k..
8	Dr Accruals Cr NHS Scotland Board Payables	- -	811 (811)	Through our testing of confirmations between the Board and other NHS Scotland Bodies, it was identified that there were two accruals incorrectly classified as non-NHS as they were in fact NHS transactions.
9	Dr Accruals Cr Other Receivables	- -	1,252 (1,252)	Through our consolidation work, we identified that an intra group payable balance for Board of £1.252m and a corresponding receivable balance for the Endowment Fund had not been eliminated on consolidation.
Total		(3,130)	3,130	

We also identified a number of disclosure adjustments, the most significant of which are as follows:

- Remuneration report adjustments, audit fee adjustment, related parties note, correction of the Group PPE note, correcting the timing and categorisation of provisions.

Appendix three

Audit Differences

Intra-group error reporting

Further to the misstatements identified on pages 33-35, we are required to report any identified errors in the reporting of intra-group balances with other NHS entities exceeding £200,000 as part of our reporting on the Consolidation Schedules to Audit Scotland. We have set out below intra-group errors identified as part of our procedures:

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

Appendix four

Confirmation of Independence

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

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of the National Waiting Times Centre Board.

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

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

Summary of non-audit services

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

Confirmation of Independence (continued)

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

Entity	2022/23
Auditor Remuneration **	£83,370
Pooled Costs	£7,540
Audit Support Costs	£3,260
Sectoral Cap Adjustment	-£7,310
TOTAL AUDIT FEES (Incl VAT)	**£86,860**
Fees for non-audit services	**-**

Source: Audit Scotland

Application of the FRC Ethical Standard 2019

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

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

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

Appendix five

KPMG's Audit quality framework

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

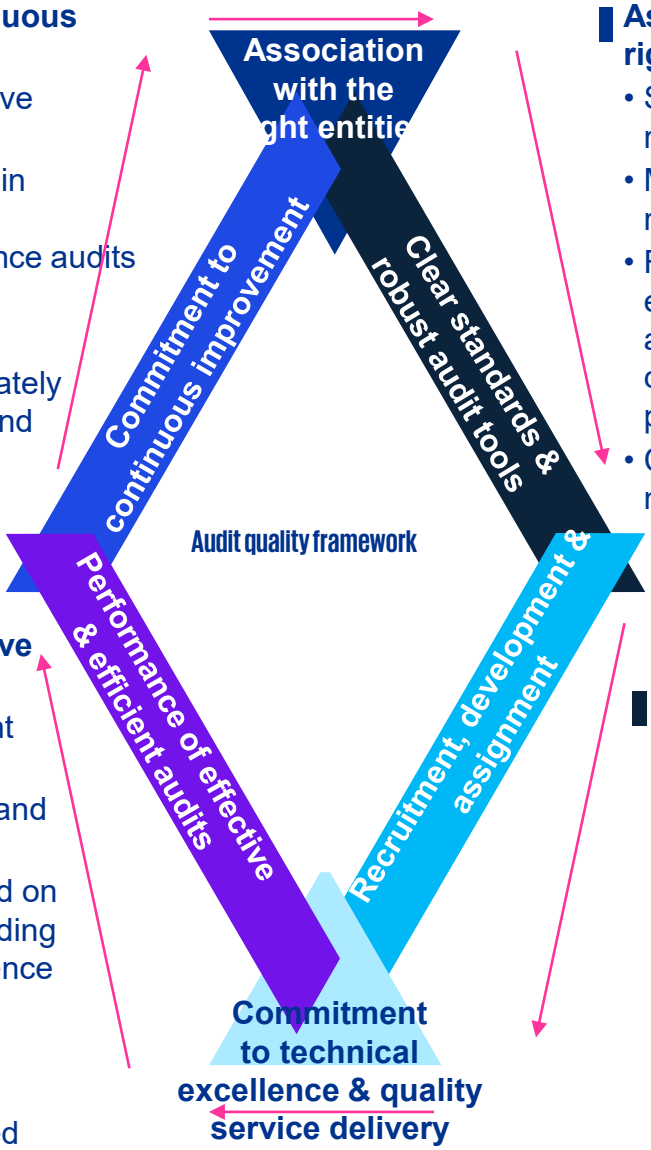
- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK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

Commitment to continuous improvement

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

Association with the right entities

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



Performance of effective & efficient audits

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

Clear standards & robust audit tools

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

Commitment to technical excellence & quality service delivery

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

Recruitment, development & assignment of appropriately qualified personnel

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

Appendix six

ISA (UK) 315 Revised: Overview

Summary

ISA (UK) 315 Identifying and assessing the risks of material misstatement incorporates significant changes from the previous version of the ISA.

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

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

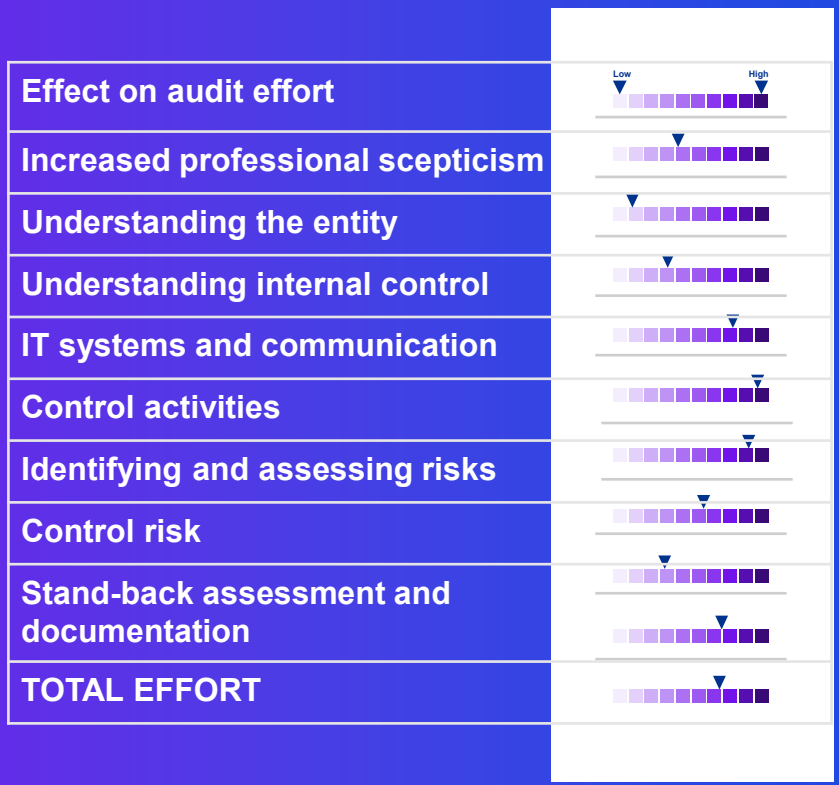
Why have these revisions been made?

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

The changes are aimed at (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

What did this mean for our audit?

To meet the requirements of the new standard, auditors have been required to spend an increased amount of time across the risk assessment process, including more detailed consideration of the IT environment. These changes have resulted in significantly increased audit effort levels which in turn, has affected auditor remuneration. This additional effort is a combination of time necessary to perform the enhanced risk assessment procedures in our audits.



Appendix six

ISA (UK) 240 Revised: Summary of key changes

Summary and background

- ISA (UK) 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. The revised ISA (UK) is effective for periods commencing on or after **15 December 2021**. Unlike ISA (UK) 315 which mirrors updates in the international ISA, the updated UK fraud standard is not based on international changes by the IAASB.
- The impact of the revisions to ISA (UK) 240 is less extensive compared to ISA (UK) 315, but nevertheless resulted in changes to our audit approach. The table to the right summarises the main changes and our final assessment of their impact.

What did this mean for our audit?

- The changes introduced new requirements which increased audit effort and therefore the audit fee. The additional work is largely the result of investing more time identifying and assessing the risk of fraud during risk assessment and involving specialists to aid with both risk identification and the auditor's response to risk.

Area	Effect on audit effort	Summary of changes and impact
Risk assessment procedures and related activities		1. Increased focus on applying professional scepticism – the key areas affected are: – the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, – remaining alert for indications of inauthenticity in documents and records, and – investigating inconsistent or implausible responses to inquiries performed. 2. Our inquiries with individuals at the entity were expanded to include, amongst others, those who deal with allegations of fraud 3. We determined whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge		We complied with enhanced requirements for internal discussions among the audit team to identify and assess the risk of fraud in the audit, including a requirement to determine the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.
Communications with management / TCWG		We have complied with new requirements for communicating matters related to fraud with management and those charged with governance, in addition to the reporting in our audit reports.

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