The State Hospitals Board for Scotland

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

27 June 2024

Key contacts

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Introduction

To the Audit Committee of The State Hospitals Board for Scotland

We are pleased to have the opportunity to meet with you on 20 June 2024 to discuss the results of our audit of the financial statements of The State Hospitals Board for Scotland (the 'Board') as at and for the year ended 31 March 2024.

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 25 January 2024. 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. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion.

We expect to issue an unmodified Auditor's Report on the financial statements and from our work over Wider Scope we haven't identified any weaknesses in the Board's arrangements.

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,

Michael Wilkie

27 June 2024

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 financial statements of The Sate Hospitals Board for Scotland (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 2024. 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 The State Hospitals Board and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries").This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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

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

Status of our audit

Our audit is now complete.

Materiality Board

Total Board expenditure

£43.2m

(2022/23: £41.3m)

Board materiality

£1.05m

2% of expenditure

(2022/23: £0.83m, 2% of expenditure)

Board: £53k

Misstatements reported to the Audit Committee (2022/23: £40k)

Board: £0.79m

Procedure designed to detect individual errors at this level (2022/23: £0.62m)

Board: £1.05m

Materiality for the financial statements as a whole (2022/23: £0.83m)

Our materiality levels

We determined materiality for the Board financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate as it reflects the scale of the Trust's services and we consider this most clearly reflects the interests of users of the Trust's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality (£0.79m). We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors' salary information in the remuneration report (£5k).

Materiality vs other metrics

	2023/24
Total Revenue	**2.1%**
Total assets	**0.9%**

Our audit findings

Significant audit risks	Risk Change	Findings (Page 8 to 12)
Valuation of Land & Buildings (Key audit matter)	No change	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of land and buildings is based. We have concluded that the assumptions used in the valuation of land and buildings are balanced.
Fraud risk – expenditure recognition	No change	We identified a misstatement within accruals and this has been adjusted. We consider the amount of expenditure recognised to be acceptable. See page 11.
Management override of controls	No Change	We have not identified any instances of management override of controls.
Key accounting estimates	**Judgement**	**Findings (Page 13)**
Property Plant and Equipment Valuation	Neutral	We assessed as reasonable the assumptions underpinning the valuation.

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 (Page 15-25)
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.

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

Our audit findings

Corrected Audit Misstatements		Page 34
Understatement/ (overstatement)	**£000**	**%**
Expenditure	(69)	0
Surplus/(deficit)	(69)	460%
Total Net Assets	(69)	0
Reserves	(69)	0

Uncorrected Audit Misstatements		Page 33
Understatement/ (overstatement)	**£000**	**%**
Expenditure	0	0
Surplus/(deficit)	0	0
Total Net Assets	0	0
Reserves	0	0

Number of Control deficiencies	Page 29
Significant control deficiencies	0
Other control deficiencies	1
Prior year control deficiencies remediated	1

Audit risks and our audit approach

Valuation of land and buildings

Significant audit risk and key audit matter

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

£79.6m (2021-22 £78.7m)

Refer accounts -44-45 (accounting policy), p50 (sources of judgement and estimation uncertainty), p60 (financial disclosures)

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

The value of the Board's land and buildings at 31 March 2024 was £79.6m, of which £78.7.m are valued as specialised assets at depreciated replacement cost.

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

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

Audit risks and our audit approach

Valuation of land and buildings

Significant audit risk

Our procedures included

Control design:

– We assessed the adequacy and outcome of the Board’s most recent assessment for impairment across its estate;

– We evaluated the design and implementation of associated controls

Assessing the valuer’s credentials:

– We critically assessed the independence, objectivity and expertise of the Valuations Office Agency, the valuers used in developing the valuation of the Board’s properties at 31 March 2024;

– We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they were appropriate to produce a valuation consistent with the requirements of the Government Financial Reporting Manual (FReM), the NHS Capital Accounting Manual and the Board’s accounting policies;

Input assessment:

– We compared the accuracy of the data provided by the valuers for the development of the valuation to underlying information, challenging management where variances are 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 agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the FReM;

Assessing transparency:

– 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.

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 2024-25 to mitigate financial pressures.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Significant audit risk

Our response

We performed the following procedures to address this 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 2024, 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 (where possible) 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 agreed the value to supporting evidence; and
- We compared the items that were accrued at 31 March 2024 to those accrued at 31 March 2023 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 had been done so appropriately.

Our findings

From our year on year comparison of accruals we did not identify any instances where further accruals should have been recorded. We therefore conclude that accruals have not been understated.

As part of our sample testing of accruals we did identify accruals which were overstated, which we have recorded as a misstatement. See page 28 for further details.

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 incorporated 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 were appropriate;

— We analysed all journals through the year and focused our testing on those with a higher risk, such as journals impacting 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 were outside the Board's normal course of business, or were otherwise unusual.

— 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.

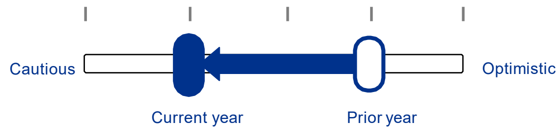
Our findings

— We identified 31 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.

— We evaluated accounting estimates and did not identify any indicators of management bias. See page 13 for further discussion.

— We did not identify any significant unusual transactions.

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
Valuation of Land and Buildings	Cautious – Neutral – Optimistic	**79.6**	**0.9**	Needs improvement – Neutral – Best practice	We have reviewed the data, assumptions and methodology involved in management's valuation of land and buildings and confirmed these were appropriate.

Other estimates

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

- Depreciation
- Accruals

No issues were identified from our testing.

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; and
- The report of the Audit Committee included in the Annual Report includes the content expected to be disclosed as set out in the Annual Accounting Manual and was consistent with our knowledge of the work of the Committee during the year.

Consolidation schedules

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

Independence and Objectivity

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

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 16;
- Financial Sustainability – Page 18;
- Vision, Leadership and Governance – Page 20;
- Use of Resources to Improve Outcomes – Page 22;

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

Findings and Conclusion

The Board has effective arrangements in place for financial management and the use of resources.

The Board met its key financial targets in year, delivering an underspend against revenue resource limit (£15k) and broke even on its capital resource limit. The Board was set a savings target of £811k and achieved this with additional savings of 16k primarily through vacancy management.

The Board presents financial monitoring reports to all meetings of the Executive Management Team and the Board. Reports include a summary of the position, detail of key financial pressures, summary by directorate, delivery of the savings target and recommendations. The Board has faced significant cost pressures in year relating due to high levels of overtime required and an increase utilities costs, however it has continued to manage its position effectively.

We have evaluated the Board's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets. Whilst we did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit, we have included in appendix 2 a number of recommendations to improve the control environment.

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.

Findings and Conclusion (continued)

An effective internal audit service is an important element of a Board's overall governance arrangements. The Board's internal audit service is provided by RSM. We have reviewed internal audit reporting through the year to support our risk assessment work.

We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate. The Board has continued to operate an effective control environment to ensure that those controls and procedures which prevent fraud have been appropriately managed. Regular updates on fraud related matters (including Counter Fraud Services updates) are presented to the Audit Committee by the Director of Finance.

We reviewed the Board's participation in the National Fraud Initiative exercise, inspecting the NFI dashboard where potential issues are flagged for Boards to investigate. We observed appropriate follow up on these potential issues by the finance team with other Boards and with Audit Scotland to address these risks and in the auditor NFI return we RAG rated the Board green for its approach to the exercise.

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

The Board has prepared its draft financial plan for 24/25 and a three year financial plan to 2027. We confirmed this had been submitted to Scottish Government in March 2024.

The financial plan for 24/25 is to break even and this is dependent on the Board achieving its savings target of £1,335k. In line with previous years, a high proportion of the savings identified (£1,007k) are nonrecurring. The Board highlights that it is becoming increasingly challenging to generate the same level of cash release savings in future years. Therefore, the Board is focusing on identifying improvements in operational efficiency, such as the introduction of a new Clinical Care Model, to achieve savings whilst still maintaining the service delivery.

The significant capital item for the Board in 2023/24 was the Perimeter Security and Enhanced Internal Security Systems Project, which commenced in 2020/21, estimated at £8.7 million (excluding VAT). The project delivery date has been slightly delayed and is now expected to be completed in August 24. As at 31st March 2024 the total spend on the project was £8.4m (excluding VAT). No significant increase in cost is expected.

As stated, the Board has developed its three year plan to 2027. The Board is planning on a balanced outturn for the years 25/26 and 26/27. This is dependent on the Board achieving similar savings to 24/25.

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.

Findings and Conclusion (continued)

The Board was also required to submit a three year workforce plan to Scottish Government in July 22. The plan clearly identifies the risks and challenges in relation to workforce in the coming years and outlines how the Board is taking action to mitigate these. Key actions will be the implementation of the new Clinical Model to boost efficiency and tog to prepare for the implementation of the Health and Care (Staffing) (Scotland) Act 2019 in 2024-25, with changes overseen by Workforce Governance Group.

To support delivery of the new model, the finance team have developed a costing dashboard for Ward Nursing and this is being implemented in 24/25. This helps management to identify the appropriate staffing levels and staff mix to ensure efficiency in the staff budget. This is a new approach and training will be provided in the coming year to facilitate effective use of the dashboard.

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

Governance arrangements at the Board are appropriate.

Board and Committee meetings have continued to be held virtually rather than in person, to date, and the preferred mechanism is now through MS Teams, in line with other NHS Boards.

Through our review of committee papers we are satisfied that there continues to be effective scrutiny, challenge and informed decision making through the financial period.

The Board continues to review its effectiveness and seeks to improve through a range of activities, including Board Development Sessions, and further training and development sessions delivered during the Board in 2023/24. The Board has reviewed its Governance structure, including Model Code of Conduct, and monitored progress against the Corporate Governance Improvement Action Plan. We have evidenced this review through audit committee and Board.

Wider Scope arrangements

Vision, Leadership and Governance

Scope

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

Findings and Conclusion (continued)

The Board was also required to submit the Annual Operating Plan (AOP) 2023/24 to Scottish Government. We have reviewed the AOP which details the actions the Board is taking to deliver core services effectively. The new Clinical Care Model is a key element of this work. This is driven by the Clinical Model project team which meets weekly and the Clinical Model Short Life Working Group which meets monthly. The Board has also employed a full time Organisational Development manager to assist in the delivery of the required changes. Progress on workstreams are reported regularly to Committee and Board.

The Board continues to engage with the work being taken forward nationally through the Corporate Governance Steering Group, and Corporate Governance Programme Board on the NHS Scotland Blueprint for Good Governance.

The Independent Review of Mental Health Services recommended a high secure services for women should be opened in the State Hospital and a new NHS Board should be created for forensic mental health services. The Board continues to work with key stakeholders to develop possible options for the Board's response to these recommendations. However, there have not been any significant development in the national position following the Independent Review into the Delivery of Forensic Mental Health Services.

In relation to IT Infrastructure and Cybersecurity, the Board continues to monitor quarterly reports from the Director of Finance and e-Health into any current incidents on a national level. It is clear from Board meetings and the risk register that this risk is taken very seriously, particularly in light of the Board's implantation of key systems such as e-Roster, HEPMA and the push for digital patient records. This is in line with both National and Board objectives.

The Board is committed to equality, diversity and human rights and will ensure that arrangements are in place to support staff who have equality, diversity and human rights issues. The Equality Impact Assessment Screening Tool is completed by all policy authors as part of the submission process relating to the policy implementation governance processes. Equality is included as part of all Board paper reports.

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

The Board has appropriate performance management processes in place that support the use of resources to improve outcomes.

The Board has developed a performance management framework which comprises quarterly updates on key performance indicators (KPIs), an annual overview of performance and year-on-year comparison each June. Under the new management structure, strategic performance is managed by the Corporate Management Team and the Strategic Planning and Performance Group, and operational performance is monitored through the Organisational Management Team and the Hospital Management Team.

The national standards directly relevant to the Board are: Psychological Therapies Waiting Times and Sickness Absence. In addition, the Board identified 12 local key performance indicators (KPIs) in 2023/24.

Of the 14 KPIs, the Board met target on 6 by the end of March 2024.

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.

Findings and Conclusion (continued)

The five KPIs that were predominantly off the target (>5%) during 2023/24 are as follows;

- Patients will have a healthier BMI
- Patients will engage in 150 mins physical activity every week
- Patients will be offered an annual physical health review
- Patients have their care and treatment plans reviewed at 6 monthly intervals
- Attendance by all clinical staff at case reviews (performance varies by profession)

We note that in three areas performance has worsened compared to 22/23, and also that for Patients engaging in Physical activity this target was raised from 60% to 70% to ensure continuous improvement. Through reporting the Board is aware of these challenges and both Operational and Workforce plans detail actions address these issues, in particular Staff sickness absence.

We note that the key action for the Board to improve delivery of services is the introduction of the new Clinical Care Model. This is driven by the Clinical Model project team which meets weekly and the Clinical Model Short Life Working Group which meets monthly. Progress on workstreams are reported regularly to Committee and Board.

Of the internal audit reports issued in 2023/24, there are three areas where a positive (either a substantial, reasonable or reasonable progress) assurance opinion was issued (Environmental, Social & Governance (ESG), Patient Monies, Complaints Management) and one on which a part positive / part partial assurance (Implementation of the New Clinical Model) was issued.

Appendices

Mandatory communications

Type		Statement
Our draft management representation letter		We have requested specific representations in relation to Assets Under Construction and Recoverability of debt. These are in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences		There were 5 adjusted audit differences with an impact of (£69k) on the reported surplus. See page 28.
Unadjusted audit differences		We did not identify any unadjusted audit differences.
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 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 were no significant matters arising from the audit that were discussed, or subject to correspondence, with management.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.
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.

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					
❶	**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.	❷	**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.	❸	**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	❸	As part of our testing of Fixed Assets we requested a the year-end Fixed Asset reconciliation. Whilst this had been completed by NSS and approved, there were small differences between the trial balance and the Fixed asset register that had not been reconciled. There is a risk that the fixed asset register is not complete and this could impact on valuation and depreciation postings to the ledger. We recommend that the Fixed Asset register is fully reconciled to the final TB before the accounts are prepared in order to capture capital expenditure.	Noted and will be taken forward in partnership with NSS. Director of Finance & eHealth - 30 September 2024

Recommendations raised and followed up (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
6	2	4

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (June 2024)
1	❷	**Journals segregation of duties** From inquiry of management and 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. This means there is no segregation of duties. Whilst senior members of the finance team may perform review of journals, this is not fully documented.	Going forward management will formally sign-off a monthly review of journals. Director of Finance & eHealth July 2023	Outstanding This recommendation has not yet been fully implemented. Management response: This was delayed due to staffing changes in the finance team and, while in place informally, will have formal sign-off now applied Director of Finance & eHealth – 30 September 2024
2	❷	**Management review of accruals.** From inquiry of management and accruals walkthrough we have established that accruals are not reviewed before being posted to the ledger. There is a risk that incorrect or inappropriate accruals are posted to the ledger, leading to an overstatement of expenditure. We identified several accruals within our testing that were overstated.	Going forward management will formally sign-off a quarterly review of accruals. Director of Finance & eHealth July 2023	Unchanged We identified further misstatements in year in relation to accruals. Management response: This was delayed due to staffing changes in the finance team and, while in place informally, will have formal sign-off now applied Director of Finance & eHealth – 30 September 2024 .

Recommendations raised and followed up (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
6	2	4

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (June 2024)
3	❷	**Valuation of Land and Buildings** Auditing standards requires us to identify a control over an area of significant risk. For Valuation of land and Buildings we have identified that Robin McNaught (DoF) does review the BCIS provided by the Valuer. However, as he is not RICS qualified we cannot conclude that he has the necessary qualifications to challenge these and we have therefore raised a control deficiency.	Noted but no action required Director of Finance & eHealth June 2023	Unchanged
4	❶	**Assets under Construction** From our audit work over fixed assets we established that the £10.2m balance within assets under construction is recorded as a single asset entry – the perimeter fence upgrade. However, this project entails work across a number of different security elements, some of which are new and some which will replace existing assets on the fixed asset register. The additions encompass many hundreds of individual entries and it will require work to allocate to individual assets on completion. When this project is complete, it is important that these different elements are accounted for correctly including: -Recording replaced assets in the asset register as disposed -Allocating indirect project costs (incl. SATs and FATs) to individual assets - Splitting out individual assets and assigning appropriate asset lives -Considering the need for any impairment or accelerated deprecation to reflect the extended period of the project.	This is a matter for implementation in 2023/24, of which management are already aware and will address on project completion. Director of Finance & eHealth, (Date subject to project completion)	Management have informed us that the project is ongoing and not formally signed off as complete. We will obtain specific representation in this respect from Management. For assets that were brought into use in year, these have been depreciated in year and the replaced assets have been recorded as disposed.

Appendix two

Recommendations raised and followed up (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
6	2	4

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (June 2024)
5	❷	**Receivables and SFR30** During our testing of receivables we identified balances with other NHS Boards where the Board had agreed the gross debt through the SFR30 exercise but had been partly provided for the in the ledger. We recommend management follow the annual accounts guidance and inform Scottish Government in all cases where they are providing for NHS debt and that the provision is consistently applied.	Notification has been made in previous years and this will continue. Director of Finance & eHealth July 2023	Unchanged We identified a misstatement in year in relation to inconsistent application of the Bad Debt provision policy.
6	❷	**Accounts Preparation** The Board utilises a service organisation, National Services Scotland (NSS), to help prepare sections of the accounts template and accounts. In the course of the audit we identified areas where management had limited knowledge and understanding of some areas of the accounts that NSS had prepared. It is managements responsibility to respond to audit requests queries and they should be able to explain all balances and disclosures within the accounts. It is recommended management fully review the draft accounts before submission to audit to ensure a clear understanding of all balances. This may form part of enhanced in-year review or as a year end process.	The TSH finance team had an absence in a key role within the team around the March 2023 year-end which impacted role responsibilities. Recruitment currently underway to fill the pending vacancy which will address this. Director of Finance & eHealth & Deputy Director of Finance Implement for application to September 2023 (mid-year) and March 2024 (year-end)	Unchanged We identified several instances where account balances produced by NSS required subsequent adjustment.

Appendix three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit 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 Committee, details of all adjustments greater than £53K are shown below:

We have not identified any unadjusted audit differences from our testing:

Unadjusted audit differences (£'000s)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	PPE Cost PPE Acc Depn		(91) 91	We identified an asset on the Fixed Asset Register, at nil Net Book Value, which had been replaced and required disposing from the accounts.
Total		0	0	

Appendix three

Audit Differences (continued)

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit 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	Accruals Op Expenditure	(412)	412	We identified a number of accruals recorded at year-end which were overstated, where the expenditure had not yet been incurred.
2	Provisions Op Expenditure	(75)	75	We identified an error within the Injury Benefit provision calculations formula. When corrected this resulted in the original provision being overstated.
3	Op Expenditure Bad Debt Provision	417	(417)	The bad debt provision recorded against Greater Glasgow & Clyde Board was understated as ageing invoices had not been provided for consistently with previous judgement.
4	General Fund General Fund Payable		200 (200)	This year-end adjustment journal in the balance sheet had been missed during accounts preparation.
5	Fixed Asset Additions Asset Under Construction		48 (48)	This was a correction required to reclassify equipment that had been purchased and in use from Assets Under Construction to Fixed Asset Additions
Total		(69)	69	

Appendix three

Audit Differences

Intra-group error reporting

Further to the misstatements identified on page 28 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 not identified any errors from the SFR30 exercise. We noted that while management had agreed the gross balances with the other NHS Boards, they had provided for Bad Debt with several Boards. We concluded that this treatment, and the reporting to Scottish Government, was appropriate.

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 Committee members

Assessment of our objectivity and independence as auditor of The State Hospitals Board for Scotland

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 partners, directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

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

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

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 audit fees charged by Audit Scotland to the Board for professional services, including those provided by us during the reporting period. Total audit fees charged by Audit Scotland were £64,210 including VAT.

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

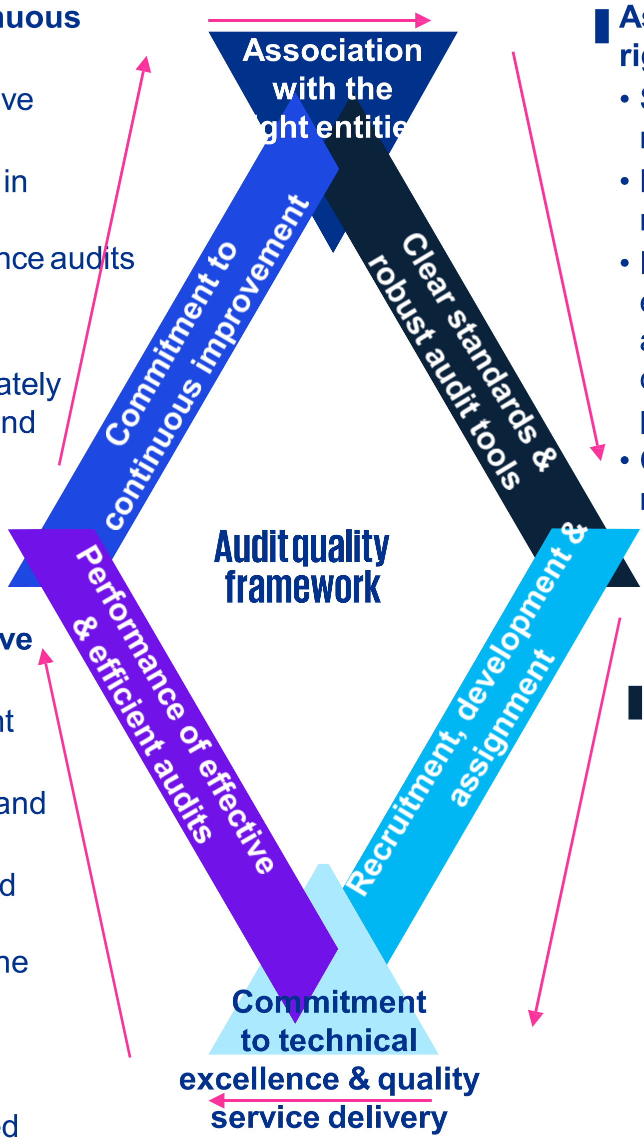
Appendix five

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.

Appendix five (continued)



Commitment to continuous improvement

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

Association with the right entities

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

Performance of effective & efficient audits

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

Clear standards & robust audit tools

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

Commitment to technical excellence & quality service delivery

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

Recruitment, development & assignment of appropriately qualified personnel

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

Appendix six

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2022/23] in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the entity.

Reporting on the effects of inflation and other uncertainties

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the trust has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.

Climate-related reporting

Climate-related reporting continues to progress with the new Companies Act requirements, effective for periods commencing 6 April 2022, requiring more entities to include climate-related financial disclosures within the annual report. These are largely aligned with the Taskforce on Climate-Related Disclosures (TCFD) recommendations, but do not include the 'comply or explain' provision for items that would have a material impact on the entity.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of trust-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions should be consistent with information provided elsewhere in the annual report and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Most of the FRC's queries related to estimation uncertainty, and often involved disclosures which either did not contain sufficient information to be useful, or which appeared inconsistent with disclosures given elsewhere.

Disclosures should explain the significant judgement and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Sensitivity disclosures should be meaningful for readers, remain appropriate in current circumstances, explaining significant changes in assumptions and the range of possible outcomes since the previous year.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

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

FRC's areas of focus (cont.)

Income taxes

Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.

Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.

Revenue

Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.

Accounting policies and relevant judgement disclosures should be provided for all significant performance obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.

Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.

Presentation of financial statements and related disclosures

The FRC expects companies to disclose trust-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.

Provisions and contingencies

Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.

Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.

Fair value measurement

Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a . Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.

The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.

Thematic reviews

During the year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

Travel, hospitality and leisure

Construction materials

Retail and personal goods

Gas, water and multi-utilities

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

Summary

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

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

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

What impact did the revision have on audited entities?

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

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

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

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

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

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

What will this mean for our on-going audits?

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

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

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

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

Ongoing impact of the revisions to ISA (UK) 240

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

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

Our assessment of the risks of material misstatement due to fraud may be found on page 5. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

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

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

Newly effective accounting standards [and relevant IFRIC items]

Standards	Expected impact				Effective for years beginning on or after			Early adoption permitted
	High	Moderate	Low	None	01 Jan 2023	01 Jan 2024	1 Jan 2025	
IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information (not adopted into the FREM, this will apply from 2025 onwards for NHS entities)								
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)					✓			
Definition of Accounting Estimate (Amendments to IAS 8)					✓			
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes)					✓			
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) (issued on 9 December 2021)					✓			
International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)					✓			
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)						✓		✓
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)						✓		✓
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)						✓		✓
Lack of exchangeability (Amendments to IAS 21)							✓	✓
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures) *								✓
UK legislation on international tax system reform (BEPS						✓		

Appendix ten

Audit quality, evidence & the timeline of completion activities

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

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

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

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