A large, modern, curved building with many lit windows, illuminated by red lights along its top edge, set against a dark blue night sky. The building is surrounded by a green lawn and a paved area with some parked cars and a bus.

NHS Greater Glasgow and Clyde

**Annual Audit Plan
Year ending 31 March 2025
18 March 2025**



**Building a better
working world**

This report

This plan has been prepared in accordance with Terms of Appointment Letter, through which the Auditor General has appointed us as external auditor of NHS Greater Glasgow and Clyde for financial years 2022/23 to 2026/27.

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

Any party other than the Recipients 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 Recipient'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, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Annual Audit Plan will be available on Audit Scotland's website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018. Responsibility for compliance is with the publishing body for the document.

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1. Executive summary

Purpose of our plan

The Auditor General for Scotland appointed EY as the external auditor of NHS Greater Glasgow and Clyde (“NHSGGC” or “the Board”) for the five year period to 2027/28.

This Annual Audit Plan, prepared for the benefit of senior management and the Audit & Risk Committee, sets out our proposed audit approach for the audit of the financial statements for the year ending 31 March 2025. In preparing this plan, we have developed our understanding of the organisation through:

- ▶ regular discussions with management, chair of the Board and the chair of the Audit & Risk Committee;
- ▶ review of key documentation and committee reports;
- ▶ our understanding of the environment in which the Board is currently operating; and
- ▶ our knowledge of the Board based on information gathered in prior year.

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations around where the Board employs best practice and where processes can be improved. In 2024/25, this will include evaluating the Board’s progress against the 7 recommendations made as part of the 2023/24 external audit, and against the 10 outstanding recommendations from the 2022/23 external audit.

We use data insights to form our audit

recommendations to support NHSGGC in improving its practices around financial management and control, and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

Our Annual Audit Plan was initially prepared on a provisional basis and presented to the Board’s Audit and Risk Committee in December 2024. After finalisation of our risk assessment procedures, this Audit Plan is now finalised and will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Board and the auditor, more details of which are provided in Appendix A.

Independence

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. Further information is available in Appendix B.

Our key contacts:

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Financial Statements audit

We are responsible for conducting an audit of the Group and Board’s financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- ▶ have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 HM Treasury Financial Reporting Manual.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of

professional judgement over both the amount and the nature of the misstatement. Our key considerations and materiality values are set out in Exhibit 1, below.

Wider Scope responsibilities

As a public sector auditor, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements by the Board and the Accountable Officer to meet their Best Value obligations as part of our proportionate and risk-based wider scope audit work. Wider scope audit requires consideration of:

- ▶ the Board’s arrangements to secure sound financial management;
- ▶ the regard shown to financial sustainability;
- ▶ clarity of plans to implement the vision, strategy and priorities of the Board, and the effectiveness of governance arrangements for delivery; and
- ▶ the use of resources to improve outcomes.

Exhibit 1: Materiality Assessment in 2024/25

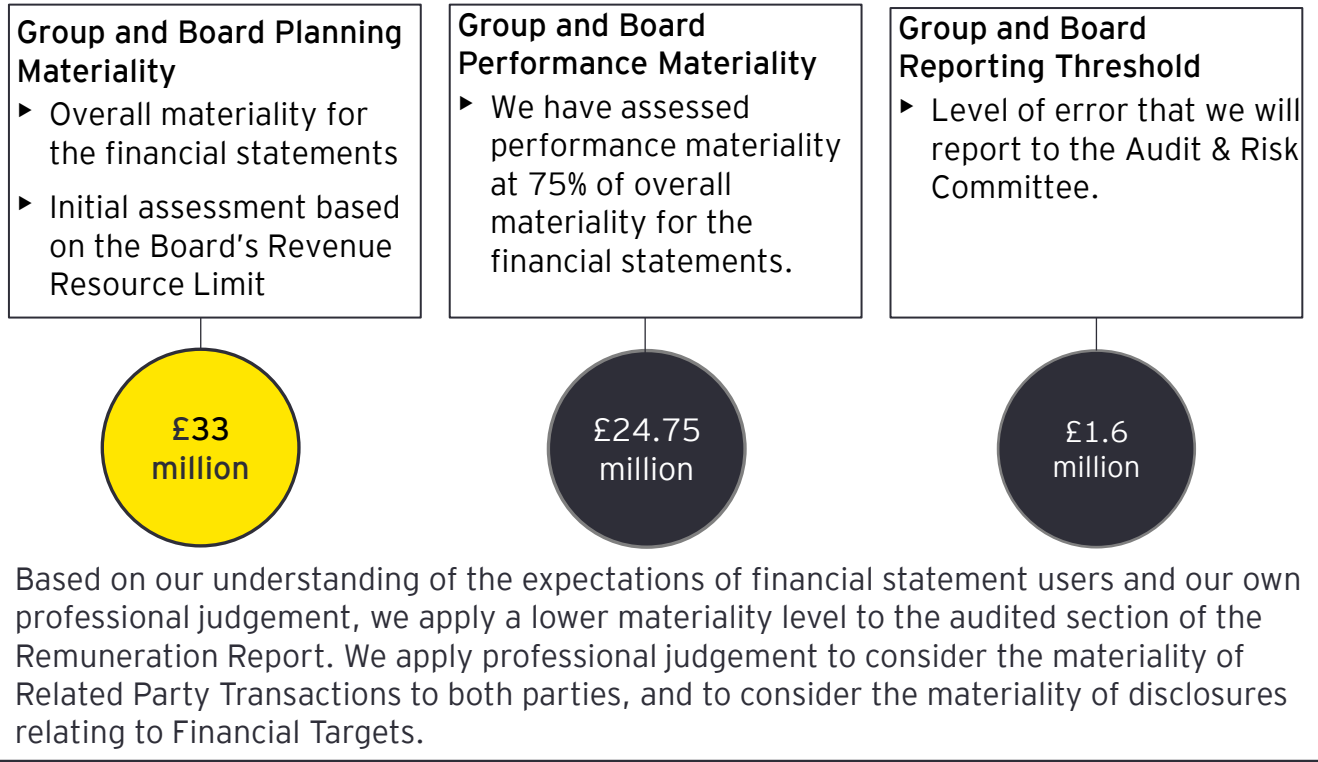


Exhibit 2: Summary of significant risks identified for the audit in 2024/25

Four significant risks, impacting the audit of the financial statements, have been identified with further details included in Section 3:

1. Risk of fraud in revenue and expenditure (fraud risk)	Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
2. Misstatement due to fraud or error (fraud risk)	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. This risk is heightened by the Board’s financial position and proximity to the financial targets.
3. Valuation of property, plant and equipment	The fair value of property, plant and equipment (PPE) represent significant balances in the Board’s financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
4. Remuneration and staff report disclosures	<p>In 2023/24, the Board was unable to produce a complete remuneration and staff report in line with the agreed timeline due to national issues impacting the provision of CETV (cash equivalent transfer values) by the Scottish Public Pensions Agency (‘SPPA’). The Board applied a FReM amendment in respect of pension values disclosed within the remuneration report.</p> <p>There is therefore a risk that the remuneration and staff report is materially misstated until the underlying issues impacting the provision of timely and accurate information are resolved.</p>

Exhibit 3: Summary of inherent risks identified for the audit in 2024/25

Two inherent risks, impacting the audit of the financial statements, have been identified with further details included in Section 3.

1. CNORIS Provision	Within the Board’s financial statements, provisions for legal obligations in respect of clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme) are recognised. These material estimates include a significant degree of subjectivity in the measurement and valuation of provisions with significant input from the Central Legal Office.
2. Existence of property, plant and equipment	<p>The Board held a significant number of fully depreciated assets with a gross book value of £320.7 million as at 31 March 2024. We determined that a significant portion of these were no longer in use, and the full balance was adjusted for. We also identified and reported control weaknesses relating to the Board’s procedures for confirming both that depreciation policies are appropriate and that assets remain in use.</p> <p>There is therefore a risk that property, plant & equipment are not accurately valued or that they are no longer in existence while still being recognised by the Board.</p>

Exhibit 4: Other areas of focus identified for the audit of 2024/25

One other area of focus has been identified as impacting the audit of the financial statements:

1. Climate change disclosures	<p>Climate change and sustainability is a key component of strategic decision making and financial planning across the public sector. The Task Force on Climate-related financial disclosures ('TCFD') framework is intended to help bodies disclose climate-related issues through existing reporting processes. The FReM requires relevant public bodies to comply with the TCFD framework. Application guidance has been released by HM Treasury and Scottish Government recommends that public bodies comply with the application guidance.</p> <p>This guidance will mean that the Board will be required to enhance their climate-related disclosures within the 2024/25 financial statements.</p>
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Exhibit 5: Summary of areas of audit focus in relation to the wider scope dimensions

Under the Code of Audit Practice, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider these risks, identified as “areas of wider scope audit focus” below, to be areas where we expect to direct most of our audit effort, based on:

- ▶ our risk assessment at the planning stage; and
- ▶ the identification of any national areas of risk within Audit Scotland’s annual planning guidance.

Any changes in this assessment will be communicated to the Audit & Risk Committee. We refer to these areas within Section 4 as “areas of audit focus”:

1. Financial sustainability: Development of sustainable and achievable medium term financial plans	<p>The pandemic, cost of living crisis and inflationary pressures have brought ongoing challenges for the Board. The Board faces risk and uncertainty outside its control which could impact on its ability to deliver savings. The Board’s three-year financial plan submitted to the Scottish Government in March 2024 set out annual deficits alongside a significant savings target to be achieved over the 3-year period.</p> <p>In prior years, the Board has relied upon non-recurring funding to achieve financial balance; continued significant work is required to deliver a sustainable medium term financial plan.</p>
2. Vision, Leadership and Governance: Scottish Hospitals Inquiry	<p>The Board continues to respond to the Scottish Hospitals Inquiry and associated matters including the legal proceedings against the parties responsible for delivering the construction project.</p> <p>The challenges associated with the inquiry and associated litigation, criminal investigations and clinical negligence remain, and place additional pressures on management and the Board that need to be balanced with other priorities.</p>

Exhibit 6: Summary of areas of audit focus in relation to best value

The Code of Audit Practice explains the arrangements for the audit of Best Value. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers each have a specific responsibility to ensure that arrangements have been made to secure Best Value. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

In line with the Code of Audit Practice, there is an expectation that equalities will be advanced through the audit process, and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. This work will be performed during the 2024/25 audit.

1. Best Value focus area: Fairness and Equality	<p>Public Bodies have a range of legal duties and responsibilities with regard to equality. A Best Value organisation will demonstrate that consideration of equality issues is embedded in its vision and strategic direction and throughout all of its work.</p> <p>The equality impact of policies and practices delivered through partnerships should always be considered. A focus on setting equality outcomes at the individual Board level will also encourage equality to be considered at the partnership level.</p> <p>We will evaluate the arrangements in place at the Board against the Ministerial guidance to accountable officers.</p>
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| 2. Sector developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Board operates to inform our audit approach.

| Financial sustainability within the health sector

Scotland's public services are facing unprecedented challenges. In May 2023, the Scottish Government's Medium Term Financial Strategy showed that forecast spending could exceed funding by 2% (£1 billion) in 2024/25, rising to 4% (£1.9 billion) in 2027/28. This strategy reflected the Scottish Fiscal Commission's projections that health spending will grow faster than that of other public services. The publication of an updated Medium Term Financial Strategy has been postponed with a new publication date yet to be agreed.

The Auditor General for Scotland publishes an annual report on the performance of the NHS in Scotland. The [NHS in Scotland 2024](#) report highlights that fundamental change in how NHS Services are provided is now urgently needed. Rising demand, operational challenges and increasing costs have added to the financial pressures on the NHS, and without reform, its longer-term sustainability.

Despite increasing funding the NHS in Scotland is still seeing fewer patients than before the Covid-19 pandemic. Progress to reduce the backlog of care has been slower than anticipated and national commitments to reduce waiting lists and waiting times have not been met.

Costs are forecast to continue rising, identifying and making savings remains challenging, and investment in new healthcare facilities remains paused. The demands of a growing and ageing population on top of these pressures, as well as the ongoing backlog created by the pandemic, mean the current healthcare delivery model is not sustainable.

The amount of brokerage provided by the Scottish Government to enable boards to break even is increasing. In 2022/23, five territorial Boards received additional support from Scottish Government to breakeven and one made use of the three-year flexibility. This position has worsened in 2023/24 with eight boards requiring additional funding at the year end from the Scottish Government, totalling £166.5 million.

In 2023/24, the Scottish Government set an NHS-wide target for boards to deliver recurring annual savings equivalent to 3% of their baseline revenue resource limit. For 2023/24, the NHS Boards achieved £471.4 million of savings, equivalent to 3.3% of the baseline, but 63% of this related to non-recurring savings.

NHS boards have deficits forecast over the next three years with reliance on one-off savings creating a risk to financial sustainability. Boards have continued to forecast increases in spending within their three-year financial plans submitted to the Scottish Government for 2024/25 to 2026/27. Cost pressures and reliance on non-recurring savings are resulting in boards carrying forward underlying deficits into future years.

| UK and Scottish Budgets 2025-26

On 30 October 2024, the Chancellor announced the UK Budget 2025-26. This included an allocation of £47.7 billion to the Scottish Government, representing the largest settlement to date.

A key element of the Budget implements an increase to employer National Insurance contributions. This will have significant implications to pay costs across the public sector. There remains some uncertainty around how this is being funded across the Scottish public sector.

The Scottish Government announced its comprehensive spending plans for 2025-26 in its budget on 4 December 2024 with the final budget being approved on 25 February 2025. This included an overall increase of £2 billion to the Health and Social Care budget compared to 2023-24. The health budget includes £16.2 billion for Boards to deliver key services, including funding to honour commitments to fair pay settlements. £200 million is also pledged to reduce waiting lists and to help support the reduction of delayed discharges.

| National Care Service Bill

In June 2022, the Scottish Government published the National Care Service Bill (the Bill). Proposals would make the Scottish Ministers accountable for adult social care. The National Care Service will define the strategic direction and quality standards for community health and social care.

Decisions on delivery models have yet to be taken but it was initially expected that the current Integrated Joint Board arrangements were to be replaced by local delivery boards, "Care Boards" which will work with the NHS, local authorities, and the third and independent sectors to plan, commission and deliver support and services for communities.

The detail of how the new service will work will be co-designed with people who have direct experience of social care services. A number of national care service forums took place over 2023 and 2024 to support the design of the new National Care Service with those who receive or deliver social care, social work and community health support.

During 2024, Council leaders and trade unions withdrew support for the Bill. The Scottish Government has subsequently confirmed that the Bill will not be brought before parliament as planned in 2024.

In January 2025, the Scottish Government announced that while it still intends to pass the Bill, this will no longer include the element relating to the structural reform that was intended as part of the original plans.

| Alcohol and Drug Services

In October 2024, the Auditor General for Scotland published, '[Alcohol and Drug Services](#)', a report which considers how effectively the alcohol and drug services in Scotland are delivering the Scottish Government's related strategies.

The report highlights that despite increased spending and better national leadership, Scotland's drug and alcohol deaths remain among the highest in Europe. Progress has been made in increasing residential rehabilitation capacity and implementing treatment standards. However, national strategies, such as a workforce plan, have been slow to progress.

A significant portion of funding goes to NHS specialist services to treat people at crisis point, leaving limited funds for preventative treatment.

3. Financial statements: Our approach and assessment of significant risks

Introduction

The publication of the annual financial statements allow the Group and Board to demonstrate accountability for, and its performance in the use of its resources.

Our responsibilities

We are responsible for conducting an audit of the Group and Board's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- ▶ have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 FReM.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

Audit Approach

For 2024/25 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

We will adopt a "data first" approach across all stages of the audit. We integrate technology into our audits to improve the way we are able to analyse and interact with your data, driving both audit quality and the insight that we can offer your Finance Team and Audit & Risk Committee.

During our planning procedures, we determine which accounts, disclosures and

relevant assertions could contain risks of material misstatement.

Our audit involves:

- ▶ identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion;
- ▶ obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control;
- ▶ evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ concluding on the appropriateness of management's use of the going concern basis of accounting;
- ▶ evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Board to express an opinion on the Group and Board financial statements;

- ▶ reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable; and
- ▶ ensuring that reporting to the Audit & Risk Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.

Confirmation of independence

Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We rigorously maintain auditor independence. Further information is available in Appendix B, where we confirm that our procedures are complete and we highlight one matter in relation to the audit of NHS Greater Glasgow and Clyde where safeguards will be implemented by both management and the audit team.

Materiality

For planning purposes, Group and Board materiality for 2024/25 has been set at £33 million. This represents 1% of the Board's revenue resource limit (RRL).

Materiality will be reassessed throughout the audit process, including where errors are identified and will be communicated to the Audit & Risk Committee within our Annual Audit Report.

Our assessment concluded that the revenue resource limit is the most appropriate basis for determining planning materiality for the Board as achieving a breakeven position against RRL is a key target for the Board and a primary area of consideration for users of the financial statements when assessing financial performance.

We consider misstatements greater than 1% of the revenue resource limit to be material.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations.

Our performance materiality has been set at 75% of overall materiality, the higher end of the range, reflecting our expectation of minimal misstatements. In determining this range, we have considered the outcome of the prior year audit, and the nature of prior year misstatements identified.

We will continue to apply a reporting threshold for misstatements of 5% of our overall materiality (£1.6 million).

We have provided supplemental information about audit materiality in Appendix F.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly, we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- ▶ **Remuneration report** - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- ▶ **Related party transactions** - which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.
- ▶ **Financial targets** - given the pressure on the Board to meet financial targets, we apply a lower level of materiality to disclosures relating to the attainment of these.

Exhibit 7: Materiality

Element	Explanation	Value
Planning materiality	<p>The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.</p> <p>This represents 1% (2023/24: 1%) of the Board's Revenue Resource Limit.</p>	<p>Group and Board: £33 million (2023/24: £32.6 million)</p>
Performance materiality	<p>Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an acceptably low level.</p> <p>We have set it at 75% (2023/24: 50%) of planning materiality.</p>	<p>Group and Board: £24.75 million (2023/24: £16.3 million)</p>
Reporting Level	<p>The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. We request that the Audit and Risk Committee, confirm its understanding of, and agreement to this reporting level.</p>	<p>£1.6 million (2023/24: £1.6 million)</p>

Group audit

The Board prepares its annual report and financial statements on a group basis.

ISA (UK) 600 (revised September 2022) special considerations - Audits of group financial statements (including the work of component auditors) becomes effective for the first time in 2024/25. The revised auditing standard introduces a number of changes to the approach required for auditing groups. This includes changes to the responsibilities of the group auditor for direction, supervision and review of the work of component auditors.

The Group consists of the following organisations:

- ▶ NHS Greater Glasgow and Clyde Endowment Fund; and
- ▶ the six Integration Joint Boards operating in partnership with the Board (Glasgow, East Renfrewshire, Renfrewshire, East Dunbartonshire, West Dunbartonshire and Inverclyde).

We have considered the arrangements in respect of each of the Board's group undertakings at the planning stage and will review throughout the audit.

The Endowment Fund is fully consolidated. Income and net expenditure for the endowment fund is expected to be immaterial.

We anticipate that the endowment fund will hold a material level of assets at 31 March 2025 however the level is not expected to be significant to the Group overall (reflecting less than 15% of group assets). Our procedures in respect of the Endowment Fund is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. Due to the nature of the investments held by the Fund, we intend to issue group audit instructions to the Endowment Fund auditor, BDO LLP.

The Integration Joint Boards are joint ventures with the respective local authority and are accounted for under the equity method. We have held risk assessment discussions with the IJB auditors to determine the scope assigned for the purpose of the Group audit. Our scoping will remain under review recognising the year end nature of consolidated IJB balances. Our procedures for the Integration Joint Boards will primarily consist of analytical review procedures and inquiries of management and IJB auditors.

We noted during our prior year audit that East Dunbartonshire IJB were unable to provide a complete confirmation of balances due to a finance system change at the Council and therefore estimated figures for month 11 and 12 were initially provided. We worked with the Board and IJB to obtain assurance over the accuracy of the consolidated figures. Further delays have occurred due to system implementation difficulties during 2024/25 with the IJB publishing unaudited annual accounts for 2023/24 on 30 January 2025. There remains uncertainty on the timeline for production of financial information for 2024/25. We therefore anticipate that alternative procedures will be required to gain assurance over the consolidated figures for East Dunbartonshire IJB.

Shared systems and functions

Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. The assurance landscape both within NHS Scotland and the wider public sector is complex due to the reliance on shared systems and services, adding additional complexities to the control environment.

Across NHS Scotland a number of shared systems and services exist including:

- ▶ National Single Instance (NSI) e-financials services, which is a financial ledger service hosted by NHS Ayrshire and Arran; and
- ▶ Practitioner and Counter Fraud Services provided by NHS National Services Scotland (including IT services).

Independent Service auditor's assurance reports are provided in line with International Standard on Assurance Engagement 3402 by the appointed service auditors for both organisations. We will evaluate the findings from the service auditors as part of our procedures including gaining an understanding of the interaction between the Board and the service organisation.

In May 2023, a new system for prescribing was implemented by NSS. This caused a number of challenges for the operation of the system across NHS Scotland with delays in boards receiving prescribing data with a small impact continuing into 2024/25. Additionally, NHS Greater Glasgow and Clyde also upgraded their local prescribing system in June 2024. There have been a number of challenges with the implementation of the new system including interface issues with the general ledger. Additional procedures on the impact of the system upgrades will be required.

| Non-compliance with Laws and Regulations (NOCLAR)

Our audit responsibilities in respect of non-compliance with Laws and Regulations (NOCLAR) are set out within Appendix G. We note specifically that our work for 2024/25 will include ongoing monitoring of the Board's participation in the Scottish Hospitals Inquiry and the ongoing police investigation in respect of four patient deaths at the QEUH.

We have set out the detailed procedures we will perform within Section 4.

We also highlight that we will give focus to the ongoing investigation being undertaken by the counter fraud services team and will consider any implications upon our audit approach in the event of any related developments.

Developments in respect of the QEUH inquiries and fraud investigations continue to play a significant role in our risk assessment of the Board and will be kept under review throughout the audit.

| Regularity

Under the Public Finance and Accountability (Scotland) Act 2000, auditors are required to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers.

We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Our response to significant risks

Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At the Board, we have agreed that these communications will be to the Audit & Risk Committee. The financial statements and our Annual Audit Report will also be reported to the NHSGGC board.

Key audit matters

ISA (UK) 701 is effective for periods commencing on or after 17 June 2016. Under appointment by the Auditor General we are required to communicate key audit matters in our Annual Audit Report. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit.

When determining key audit matters we consider:

- ▶ areas of higher or significant risk;
- ▶ areas involving significant judgment, including accounting estimates with high estimation uncertainty; and
- ▶ significant events or transactions that occurred during the period.

At this stage of the audit we do not know what key audit matters we will include in our Annual Audit Report. However, we have included within this section the most significant assessed risks of material misstatement (whether or not due to fraud), including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We will confirm the key audit matters to you in our Annual Audit Report.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

We set out in the following sections the significant risks (including fraud risks denoted by *) that we have identified for the audit, along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the Audit & Risk Committee if our assessment changes significantly during the audit process.

1. Risk of fraud in revenue and expenditure recognition*

Financial Statement Impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts and associated balance sheet accounts.

These accounts had the following balances in the 2023/24 audited financial statements:

- ▶ Operating income (including contract revenue): £3.1 billion
 - ▶ Accrued income: £36.6 million
 - ▶ Other Receivables: £22.8 million
 - ▶ Non-payroll expenditure: £4.24 billion
- ▶ Payables accruals: £275.2 million
 - ▶ Deferred Income (including contract liabilities): £27.4 million
 - ▶ Provisions: £460 million

What is the risk?

The Board’s financial plan for 2024/25 set out an initial forecast deficit of £48.3 million. The scale of challenges facing the Board is substantial, and the projected deficit remained significant at £43 million as at October 2024.

There is an expectation on NHS Boards in Scotland to attain an annual breakeven position. They may make use of limited financial flexibilities, allowing them to operate within one per cent of their core revenue budget, although this must then be offset over a three-year period. This therefore imposes a ‘three-year break-even’ position.

The anticipated deficit position of £43 million would exceed the one percent of the flexibility level and therefore a significant focus of the Board ahead of the yearend will therefore be identifying and attaining any possible additional savings.

As a result of the financial pressures and forecast deficit there is a presumed incentive for management to manipulate judgemental and subjective areas of the financial statements to improve the

Board’s reported financial performance and ensure a position in line with the Board’s financial targets. This could include taking opportunities to re-assess judgemental or complex accounting policies for more favourable financial results.

We consider the risk is likely to relate to the overstatement of income, accrued income and other receivables, and the understatement of expenditure, payable accruals, and provisions. We believe the risk to be focused around manual yearend adjustments such as accrued income, accrued expenditure, deferred income and provisions. Alongside this, there is a risk of misclassification between revenue and capital expenditure.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account. Accordingly, we rebut the risk in respect of revenue and expenditure recognition around Scottish Government funding, income for services commissioned by Integration Joint Boards and payroll expenditure.

As noted on page 16, we highlighted that challenges have been encountered in relation to the implementation of a new prescribing system and therefore we recognise an additional risk in respect of the completeness and accuracy of prescribing expenditure.

Our response: Key areas of challenge and professional judgement

Based on our current understanding we will take a fully substantive approach to testing the related accounts.

Specifically, we will:

- ▶ review and test revenue and expenditure accruals at the period end date;
- ▶ assess whether assets and liabilities have been appropriately classified within the financial statements;
- ▶ focus our testing on manual year-end accrued income and other receivables, accrued expenditure, and provisions where we believe the risk of management override and/or inappropriate revenue and expenditure recognition to be greater;
- ▶ test compliance with IFRS 15 in respect of contract revenue;
- ▶ perform specific testing over family health services income and expenditure including agreeing amounts recognised to form 12s and reviewing the findings of the service auditors' reports;
- ▶ test revenue and capital expenditure to ensure it has been appropriately classified;
- ▶ review the classification of provisions, accruals and contingent liabilities, and

assess the completeness of related disclosures;

- ▶ Review the arrangements for the transition in prescribing system and perform specific cutover testing to ensure expenditure has been appropriately recorded; and
- ▶ Perform detailed testing over the interface between the new prescribing system and the general ledger to ensure prescribing expenditure is accurately recorded.

2. Misstatement due to fraud or error*

| What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to the fraud risk on every audit engagement.

| Our response: Key areas of challenge and professional judgement

We will:

- ▶ inquire of management about risks of fraud and the controls put in place to address those risks;
- ▶ understand the oversight given by those charged with governance of management's processes over fraud;
- ▶ consider the effectiveness of management's controls designed to address the risk of fraud; and
- ▶ perform mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
 - ▶ assessing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions.

We will use our data analytics capabilities to assist with our work.

3. Valuation of Property, Plant and Equipment

Financial Statement Impact

Within the 2023/24 financial statements, the Board held £2.57 billion of property, plant and equipment with £2.3 billion relating to land and buildings. Additions totalled £94 million with completions of £59 million.

| What is the risk?

In accordance with the Government Financial reporting manual ('the FReM'), the Board must ensure that land and buildings are subject to regular valuation. The Board has a rolling 5 year programme with indexation applied to assets not formally revalued in year.

The fair value of property, plant and equipment (PPE) represent significant balances in the Board's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

During 2023, an additional aspect of the risk around accounting for capital balances emerged nationally, in relation to the use of Reinforced Autoclaves Aerated Concrete (RAAC) in buildings across the UK. It was identified nationally that RAAC had the potential to materially impact the functionality and safety of buildings and result in significant additional costs to rectify and mitigate risks, or result in buildings being closed altogether. The Board have identified RAAC within a building at the Glasgow Royal Infirmary, and investigations are ongoing to determine required remediation actions. Management will be required to assess any impairment required to identified buildings containing RAAC as part of their annual impairment assessment.

The Board additionally has a significant capital programme with judgement being applied to the valuation of additions and split between revenue and capital expenditure.

The Board also has a number of sites which are either expected to be disposed of during the year or will be surplus imminently which will impact the valuation at year end.

We further note that a significant valuation adjustment was identified of £123 million due to the incorrect application of the indexation rate.

| Our response: Key areas of challenge and professional judgement

We will:

- ▶ review and appraise the work performed by the Board's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ assess management's challenge of the valuer including understanding any significant changes in valuation or useful lives against the Board's own understanding of the estate;
- ▶ sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ involve EY internal specialists to challenge the work performed by the Board's valuers, where appropriate;
- ▶ assess any changes to useful economic lives;
- ▶ test accounting entries have been correctly processed in the financial statements;

- ▶ assess the completeness of management's assessment of the presence of RAAC within the Board's estate and any impairments required to buildings;
- ▶ sample test transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- ▶ review management's impairment assessment and assess the completeness of impairment considerations;
- ▶ gain an understanding of the level and nature of capital spend in year and perform testing on fixed asset additions ensuring an appropriate split between revenue and capital expenditure;
- ▶ consider the valuation of any surplus assets or assets towards the end of their useful lives;
- ▶ ensure disposals are correctly accounted for;
- ▶ ensure additions are capitalised in a timely manner and depreciation appropriately charged from the date the asset was brought into use; and
- ▶ review operating expenditure for evidence of capital additions omissions.

4. Remuneration and Staff Report

Financial Statement Impact

In line with FReM requirements, the Board must produce a remuneration and staff report which includes disclosures in respect of Board members and management remuneration and pension benefits as well as other staff information. By nature, these disclosures are considered sensitive and attract a greater level of attention.

| What is the risk?

In 2023/24, the Board was unable to produce a complete remuneration and staff report in line with the agreed timeline due to national issues impacting the provision of CETV (cash equivalent transfer values) by the Scottish Public Pensions Agency ('SPPA'). The Board applied a FReM amendment in respect of pension values disclosed within the remuneration report.

We anticipate that the Board will work on a resolution to ensure that full disclosures are restored for both current and prior year in the 2024/25 financial statements.

In respect of other audited areas of the remuneration report, we identified a number of disclosures amendments including inconsistent use of payroll data to produce the required disclosures.

During 2024/25 there has been turnover in respect of both the Board's non-executive and executive members which adds further complexities to the required remuneration disclosures.

There is therefore a risk that the remuneration and staff report are not complete and/or free from error.

| Our response: Key areas of challenge and professional judgement

We will:

- ▶ review the remuneration and staff report against the FReM and NHS annual accounts manual requirements to ensure compliance;
- ▶ test the underlying data used to prepare the remuneration and staff report disclosures to source documentation;
- ▶ test the mathematical accuracy of remuneration and staff report disclosures;
- ▶ assess the completeness and consistency of remuneration and staff report disclosures against our knowledge of the Board and other audit procedures performed such as payroll testing; and
- ▶ ensure pension data provided by SPPA is consistent with Board records and investigate any discrepancies.

Inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that we will include in our annual audit report.

| CNORIS Provision and Structured settlements

Within the Board’s financial statements, provisions for legal obligations in respect of clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme) are recognised. The Board also recognise liabilities for previous agreements known as structured settlements. These material estimates include a significant degree of subjectivity in the measurement and valuation of provisions with significant input from the Central Legal Office. These provisions totalled £431 million in the 2023/24 financial statements.

In response to this risk we will:

- ▶ review the method, underlying assumptions and data inputs used to calculate the provision to ensure these are appropriate and accurately reflect the Board’s obligation as at 31 March 2025;
- ▶ assess whether provisions, including CNORIS and structured settlements, are recorded in line with the FReM and the Board’s accounting policies, and have been accounted for appropriately;
- ▶ assess the work performed by the NHS Scotland Central Legal Office, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; and
- ▶ assess completeness of disclosures in respect of significant estimation and judgements applied for provision values.

| Existence of property, plant & equipment

The Board held a significant number of fully depreciated assets with a gross book value of £320.7 million as at 31 March 2024. We determined that a significant portion of these were no longer in use, and the full balance was adjusted. We identified and reported control weaknesses relating to management’s existence checks.

There is therefore a risk that property, plant & equipment are not accurately valued or that they are no longer in existence while still being recognised by the Board.

In response to this risk we will:

- ▶ Ensure that assets recorded in the financial statements remain in existence at the balance sheet date through performing physical verification checks; and
- ▶ Ensure that the Board has an appropriate depreciation policy in place which is representative of the expected life of an asset.

Other areas of audit focus

<p> Climate change disclosures</p> <p>Climate change and sustainability is a key component of strategic decision making and financial planning across the public sector.</p> <p>The Task Force on Climate-related financial disclosures ('TCFD') framework is intended to help bodies disclose climate-related issues through existing reporting processes. The FReM requires relevant public bodies to comply with the TCFD framework. Application guidance has been released by HM Treasury and Scottish Government recommends that public bodies comply with the application guidance.</p> <p>This guidance will mean that the Board will be required to enhance their climate-related disclosures within the 2024/25 financial statements.</p>	<p>We will review the climate related disclosures within the financial statements and assess compliance against the revised requirements.</p> <p>We will consider the Board's arrangements to respond to climate change and assess progress towards delivery of its climate ambitions through our wider scope procedures as set out in Section 4.</p>
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Going concern

Audit requirements

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the FReM, the Board shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.

However, under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of the ongoing cost of living crisis and inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Board and its financial sustainability.

Should 2024/25 result in a deficit position for the Board, we will consider any implications with relation to the Scottish Government target thresholds and future funding implications.

Our work on going concern requires us to:

- ▶ challenge management's identification of events or conditions impacting going concern;
- ▶ challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtain and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Board obtained through our audit;
- ▶ conduct a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Due to the anticipated continuation of service provision, the going concern basis of accounting will continue to be appropriate for the Board.

4. Best Value and Wider Scope

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Vision, Leadership and Governance; and
- ▶ Use of resources to improve outcomes.

The Code of Audit Practice requires that, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider these risks, identified as “areas of wider scope audit focus” below, to be areas where we expect to direct most of our audit effort, based on:

- ▶ our risk assessment at the planning stage; and
- ▶ the identification of any national areas of risk within Audit Scotland’s annual planning guidance.

Any changes in this assessment will be communicated to the Audit & Risk Committee.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

No new areas of focus have been highlighted within the 2024/25 Audit Scotland planning guidance.

Best Value

The Code explains the arrangements for the audit of Best Value. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers each have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Ministerial guidance to [Accountable Officers for public bodies](#) sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

Our wider scope work will therefore consider the organisational arrangements when planning and reporting on our work.

While our risk assessment will be used to determine the requirement for any additional audit work covering the seven Best Value characteristics, there is an expectation that equalities will be advanced through the audit process, and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. We anticipate conducting this work in 2024/25 as set out on page 34.

Financial Management

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

Our 2023/24 Annual Audit Report did not identify any significant internal control weaknesses which could affect the Board’s ability to record, process, summarise and report financial and other relevant data. However, we identified 7 new recommendations during our audit, alongside a number of incomplete audit recommendations from the prior year.

Our 2023/24 Annual Audit Report noted a number of changes in personnel within the finance team including those responsible for the financial statement preparation.

The Board met all financial targets in 2023/24 with an underspend of £0.48 million. However, the majority of savings delivered were on a non-recurring basis and the Board faces unprecedented financial pressures in 2024/25 with significant recurring and non-recurring savings targets.

The Board’s financial plan for 2024/25 set out a financial forecast deficit of £48.3 million, and as at October 2024, this had reduced to £43 million.

Like many health boards, the Board has historically relied on non-recurring savings to reach breakeven. However, through the Sustainability and Value programme, the Board continue to identify areas for recurring savings over the short and medium term.

Our response

As part of our assessment of the Board’s financial management arrangements, we will consider:

- ▶ whether there are sufficient financial skills and capacity within the finance function;
- ▶ the Board’s participation and progress in the National Fraud Initiative and other counter fraud arrangements;
- ▶ arrangements to ensure systems of internal control are operating effectively, drawing upon our ISA (UK) 315 procedures and the follow up of prior year audit recommendations;
- ▶ financial monitoring arrangements, including clarity about any changes to budgets and projections during the year;
- ▶ the achievement of savings against plans, including the proportion of non-recurring savings and additional funding required to deliver the Board’s financial targets; and
- ▶ whether financial balance is achieved.

Financial Sustainability

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.

The financial environment in which the Board operates was already challenging, and the Covid-19 pandemic, alongside the impact of the economic and geopolitical environments, including supply chain challenges, continues to result in further, significant financial pressures, and creates a risk that the Board will not be able to develop viable and sustainable financial plans.

The Board submitted a three-year financial plan in March 2024 to the Scottish Government which outlines annual deficits of £48.3 million in 2024/25, £37.9 million in 2025/26 and £7.2 million in 2026/27 resulting in a cumulative deficit of £93.4 million with £367.6 million of savings to be achieved across the three year period from 2024-2027.

The financial plan requires delivery of recurring savings of a value over 50% greater than what has been achieved in recent years.

To deliver the scale of savings required to achieve financial balance, difficult decisions will be required, and larger scale service reform will be necessary.

Our response

We have identified a wider scope significant risk in Exhibit 8 in respect of financial sustainability. Our assessment of the Board’s financial sustainability arrangements, will focus on:

- ▶ considering the progress made to review income and expenditure and to identify recurring and non-recurring savings, in line with the financial plan;
- ▶ reviewing the achievement of planned recurring and non-recurring savings; and
- ▶ assessing the link between the financial and other strategic and operational plans including the workforce strategy.

Exhibit 8: Financial Sustainability Area of Audit Focus

Development of sustainable and achievable short and medium term financial plans

The pandemic, cost of living crisis and inflationary pressures have brought ongoing challenges for the Board. The Board faces risk and uncertainty outside of its control which could impact on its ability to deliver savings. The Board’s three-year financial plan submitted to the Scottish Government in March 2024 set out annual deficits alongside a significant savings target to be achieved over the 3-year period.

In prior years, the Board has relied upon non-recurring funding to achieve financial balance; continued significant work is required to deliver a sustainable medium term financial plan.

Vision, leadership and governance

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.

The Board has a focus on continuous improvement as demonstrated through the ongoing implementation of NHS Scotland's Blueprint for Good Governance. Features of good governance were demonstrated by the Board during the prior year.

The Board has experienced significant turnover of non-executive members within 2024, including the addition of 6 new members. Recruitment exercises have also been successfully completed for both Medical Director and Chief Executive roles. These changes will bring fresh perspectives to the Board but it is also recognised that there will be a loss of corporate knowledge, particularly through the departure of two experienced executive management team members.

Significant work has taken place in relation to concerns over infection prevention and control at the Queen Elizabeth University Hospital and Royal Hospital for Children. The Board continues to assess, and where appropriate, update the arrangements it has to respond to the Scottish Public Hospitals Inquiry, police investigation and the legal proceedings against the parties responsible for delivering the Queen Elizabeth University Hospital and Royal Hospital for Children construction project.

The Scottish Hospital Inquiry will determine how issues relating to adequacy of ventilation, water contamination and other matters impacted on patient safety and care and whether these issues could have been

prevented. The inquiry will also examine the impacts of these issues on patients and their families and whether the buildings provide a suitable environment for the delivery of safe, effective care. It will make recommendations to ensure any past mistakes are not repeated in future NHS infrastructure projects. The level of activity to support the public inquiry has significantly increased over the course of 2024.

The police investigation in respect of patient deaths remains ongoing with the Board previously being named as a suspect. The Board is subject to investigation in respect of compliance with both the Health and Safety and Corporate Homicide Acts.

We have assessed this area as an area of focus in 2024/25 (refer to Exhibit 9, below).

The Board continues to respond to a number of other inquiries and regulatory inspections, including areas such as public inquiries, fatal accident inquiries and Healthcare Improvement Scotland and Mental Welfare Commission inspections. The Board is also working with the Scottish Information Commissioner to improve compliance following receipt of an intervention notice.

Our audit requirements include specific responsibilities in respect of areas of suspected non-compliance with laws and regulations.

Our response

As part of our response to the Scottish Hospitals Inquiry and associated matters, we will:

- ▶ consider the progress of the inquiry and associated matters, including update reporting to the board;
- ▶ assess the impact of the inquiry and associated matters on management and the Board’s capacity;
- ▶ issue external legal confirmations to confirm the current status of all cases and investigations both at the balance sheet date and in advance of concluding the audit; and
- ▶ consider the potential accounting implications of any developments.

Other work in 2024/25 will consider:

- ▶ consideration of the disclosures within

the Governance Statement;

- ▶ review of the coverage of internal audit arrangements during 2024/25, including any significant findings identified and the work done to address issues identified;
- ▶ review of the transition arrangements in place for key senior roles;
- ▶ review of communication with third party regulators including Healthcare Improvement Scotland and the Information Commissioner as well as evaluating management’s response; and
- ▶ consideration of the quality of reporting and information provided to key decision makers, and evidence of effective

Exhibit 9: Vision, Leadership and Governance Area of Audit Focus

Scottish Hospitals Inquiry and associated matters

The Board continues to respond to the Scottish Hospitals Inquiry and associated matters including the legal proceedings against the parties responsible for delivering the construction project.

The challenges associated with the inquiry and associated litigation, criminal investigations and clinical negligence remain, and place additional pressures on management and the Board that need to be balanced with other priorities.

Use of resources

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.

Our 2023/24 Annual Audit Report noted that the Board considered regular performance updates against the Annual Delivery Plan measures throughout the year. Performance has slightly declined against the Board's KPIs during 2023/24, with 57% of targets being met compared to 66% in 2023/24.

There continues to be significant challenges in performance across three key areas: cancer treatment times; accident and emergency treatment times and delayed discharges. Increasing demand for services, including cancer referral rates, present challenges in improving performance however despite these challenges, significant improvement in these areas is required, a position common across NHS Scotland.

The Board continues to engage with partners including the Health and Social Care partnerships and local authorities to improve performance in areas such as delayed discharges.

Management of the Board's significant estate presents a numbers of challenges but also opportunities. Work is ongoing to review the estate and ensure it remains fit for purpose to deliver services effectively and efficiently. Savings opportunities exist with one example being the consideration of PFI contracts coming to an end.

The Board's sustainability Strategy was approved in August 2023. Targets have been established to support the Board in assessing progress with their climate and sustainability ambitions.

Workforce management remains a significant focus of the Board. There have been multiple recent changes to workforce requirements, such as the Safe Staffing legislation implemented from April 2024 and moving staff to a 36-hour week. The Board is also navigating the job evaluation exercise with respect of Band 5 nurses.

Our response

Our work in 2024/25 will consider:

- ▶ the Board's arrangements to report performance, and the escalation process where performance continues to be challenging;
- ▶ how the Board ensures that key strategies are subject to review and refresh with key performance measures being in place to assess progress;
- ▶ the alignment of the Board's strategies to the Moving Forward Together strategy;
- ▶ the Board's workforce management arrangements including how the Board has consideration of the implementation of the safe staffing legislations and changes to working hours;
- ▶ Progress in implementing the Board's Sustainability strategy; and
- ▶ the Board's arrangements to ensure value for money through use of public funding, including a robust procurement framework that is subject to regular scrutiny.

Best Value

In line with the Code of Audit Practice requirements, we are required to carry out work on the Fairness and Equality characteristic at least once during the audit appointment. We plan to perform this work during 2024/25.

Exhibit 10: Best Value Area of Audit Focus

Best value focus: Equality	<p>Public bodies have a range of legal duties and responsibilities with regard to equality. A Best Value organisation will demonstrate that consideration of equality issues is embedded in its vision and strategic direction and throughout all of its work.</p> <p>The equality impact of policies and practices delivered through partnerships should always be considered. A focus on setting equality outcomes at the individual Board level will also encourage equality to be considered at the partnership level.</p> <p>We will evaluate the arrangements in place at the Board against the ministerial guidance to accountable officers.</p>
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| Appendices

A - Code of Audit Practice Responsibilities

B - Independence report

C - Required communications with the Audit and Risk Committee

D - Timing of communications and deliverables of the audit

E - Audit fees

F - Additional audit information

G - Role and responsibilities in relation to Non-compliance with Laws and Regulations (NOCLAR)

Audited Body Responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures;
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in

accordance with the appropriate authority

- ▶ preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ▶ ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified;
- ▶ compliance with any statutory financial requirements and achievement of financial targets;
- ▶ balances and reserves, including strategies about levels and their future use;
- ▶ how they plan to deal with uncertainty in the medium and longer term; and
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (i.e., the independent auditor's report in relation to the accounts) must set out the auditor's findings on:

- ▶ whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with:
 - ▶ any enactment by virtue of which the expenditure was incurred or the income received
 - ▶ the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate
 - ▶ Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- ▶ where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- ▶ whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- ▶ whether the accounts comply with any applicable direction by virtue of any enactment.
- ▶ Appointed auditors must send the accounts, including the independent auditor's report, to the Auditor General who may prepare a statutory report on the accounts under Section 22 of the 2000 Act.

Appendix B: Independence Report

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- ▶ The overall assessment of threats and safeguards.
- ▶ Information about the general policies and process within EY to maintain objectivity

and independence.

Final Stage

- ▶ To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto.
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- ▶ An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our continuing independence to act as your external auditor.

Appendix C: Required Communications

We have detailed below the communications that we must provide to the Board.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	This Annual Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	This Annual Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Annual Audit Report - June 2025

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and, ▶ The adequacy of related disclosures in the financial statements. 	Annual Audit Report - June 2025
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and, ▶ Material misstatements corrected by management. 	Annual Audit Report - June 2025
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and, ▶ A discussion of any other matters related to fraud. 	Annual Audit Report - June 2025
Internal controls	Significant deficiencies in internal controls identified during the audit.	Annual Audit Report - June 2025
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report - June 2025

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and, ▶ Difficulty in identifying the party that ultimately controls the entity. 	Annual Audit Report - June 2025
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards; and, ▶ Information about the general policies and process within the firm to maintain objectivity and independence. 	This Annual Audit Plan and Annual Audit Report (June 2025)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations. ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Annual Audit Report - June 2025
Representations	Written representations we are requesting from management and/or those charged with governance.	Annual Audit Report - June 2025
Auditor's report	Any circumstances identified that affect the form and content of our auditor's report.	Annual Audit Report - June 2025

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of. 	Annual Audit Report - June 2025
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider scope audit.	Annual Audit Report - June 2025
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Annual Audit Report - June 2025
Group matters	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components. ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components. ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted. 	Annual Audit Report - June 2025

Appendix D: Timeline of communication and deliverables

	Audit Activity	Deliverable	Timing
October	Planning: Risk assessment for Financial Statements and wider scope audit dimensions		
November		Submission of quarterly fraud return	
December		Provisional Annual Audit Plan	3 December 2024
January	Walkthrough of key systems and processes, including internal controls. Interim audit testing.		
February		Submission of quarterly fraud return	
March		Final Annual Audit Plan	18 March 2025
April	Year end audit fieldwork		
May		Submission of quarterly fraud return	
June	Audit completion procedures	Annual Audit Report	30 June 2025

2024/25 Fees

The Board's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2024/25	2023/24
Component of fee:		
Auditor remuneration - expected fee	£443,220	£415,760
Additional audit procedures (See below)	£TBC	£173,500
Audit Scotland fixed charges:		
Pooled costs	£44,900	£50,260
Sectoral cap adjustment	£69,240	£70,880
Total fee	£TBC	£710,400

As part of our ongoing interactions with Audit Scotland, at its request we shared a summary of scope variations we believe will be continuing through the audit appointment, such as those around PFI schemes that have come into place since the 2021 audit tender, clarification of the accounting requirements such as income recognition under IFRS 15, and wider likely recurring changes to the risk profile of the Board from initial understanding in 2021.

At this stage of our planning we have raised with management the areas of expected additional financial statement audit work required in 2024/25, related to additional risk areas following our audit findings in 2023/24 (in respect of remuneration and staff report, accruals, PPE valuations (including RAAC impact) as well as new matters for this year such as changes to group audit requirements and the change in prescribing system. We will continue to assess the requirement for additional consideration required around the governance and associated disclosures related to the ongoing public inquiry and litigation related to the Scottish Hospitals Inquiry. We will also continue to consider the impact of the ongoing police investigation in respect of patient deaths and the ongoing counter fraud services investigation including the impact of any developments on our overall risk assessment.

Should additional audit requirements arise we will continue to raise these with management as early as practically possible through the course of the audit, and discuss variations to the expected fee as appropriate, based on the rates provided by Audit Scotland in its supplementary audit planning guidance, and report the final position to the Audit & Risk Committee within our Annual Audit Report.

Appendix F: Additional Audit Information

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Audit & Risk Committee reporting appropriately addresses matters communicated by us to

the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and

- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

- ▶ For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- ▶ Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- ▶ The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

- ▶ Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- ▶ We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202324>
- ▶ EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/about-us/transparency-report

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Appendix G: Role and responsibilities in relation to Non-compliance with Laws and Regulations (NOCLAR)

What do we mean?

Non-compliance with Laws and Regulations (NOCLARs) include:

- ▶ Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations.

Examples of NOCLARs

Matter	Implication
Suspected or known fraud or bribery	▶ Potential fraud/breach of anti-bribery legislation
Health and Safety incident	▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
Loss of personal data	▶ Potential GDPR breach
Allegation of discrimination in dismissal	▶ Potential non-compliance with employment laws
HMRC or other regulatory investigation	▶ Suspicion of non-compliance with laws/regulations
Deliberate journal mis-posting or allegations of financial impropriety	▶ Potential fraud / breach of Companies Act 2006
Transacting business with sanctioned individuals	▶ Potential breach of sanctions regulations

We outline the respective responsibilities of management and the external auditor on the following page.

In addition, we highlight the responsibilities of those charged with governance ensuring the requirement to alert auditors if they become aware of any non-compliance with laws and regulations and respond to any requests for information from us in full including through our annual letter to those charged with governance. TCWG may also wish to ensure that updates are provided from management on a frequent basis including where there are specific concerns.

Appendix G: Role and responsibilities in relation to Non-compliance with Laws and Regulations (NOCLAR)

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, **to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations**, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has **taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information** and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics](#) (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

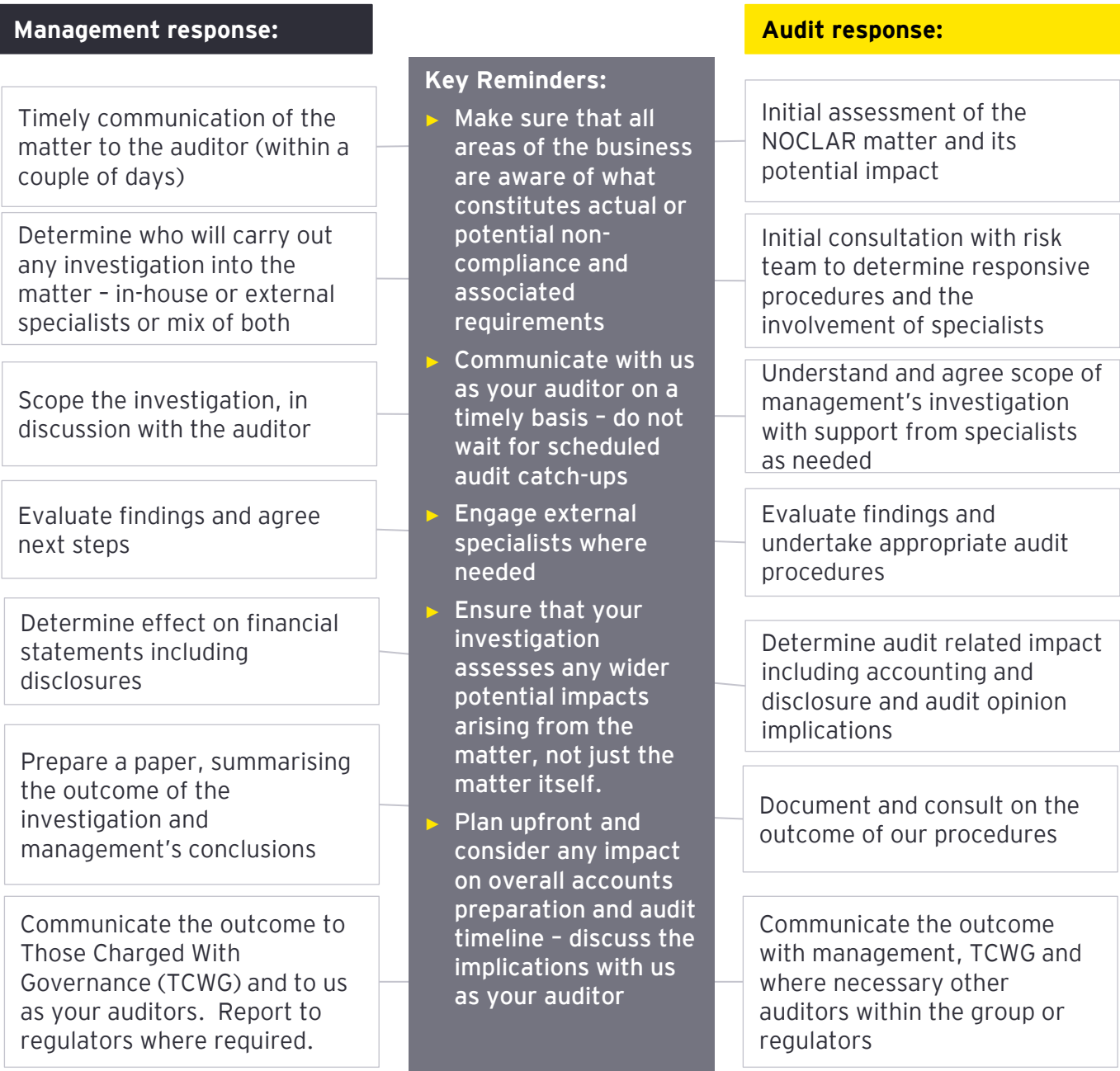
The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Appendix G: Role and responsibilities in relation to Non-compliance with Laws and Regulations (NOCLAR)

What are the implications of NOCLAR matters arising?

- ▶ Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.
- ▶ This can have an impact on overall achievability of audit timeline and required procedures.



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