NHS Greater Glasgow and Clyde

Annual Audit Plan

Year ended 31 March 2023

EY

Building a better working world

This report

This report 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.

Contents

Section	Auditor Responsibility	Page
1. Executive Summary	Summarise the key risks and audit approach for the 2022/23 audit	03
2. Sector developments	Provide a summary of recent accounting and audit developments that are relevant to NHS Scotland and the Board	06
3. Financial Statements: Our Approach	A summary of our audit approach, materiality and the key risks that we have identified in relation to the financial statements audit	09
4. Best Value and Wider Scope Dimensions	Our risk assessment and audit approach for reviewing the Board's compliance with the wider public audit scope areas: ▸ 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. Annual Best Value audit work is integrated with wider scope annual audit work.	20
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: Code of Audit Practice: responsibilities Appendix B: Auditor Independence Appendix C: Required communications with the Audit & Risk Committee Appendix D: Timing of communications and deliverables Appendix E: Audit fees Appendix F: Additional audit information	24

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 2023. In preparing this plan, we have developed our understanding of the organisation through:

- introductory planning discussions with management, the Chair of the Board and the Chair of the Audit & Risk Committee;
- handover discussions and review of key documentation from your predecessor auditor, Audit Scotland;
- review of key documentation and committee reports; and
- our understanding of the environment in which the Board is currently operating.

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. 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.

After consideration by the Board's Audit & Risk Committee, the finalised plan 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 acceptance procedures, including our assessment of our independence to act as your external auditor. Further information is available in Appendix B.

Our key contacts:

Stephen Reid, Engagement Partner
sreid2@uk.ey.com

Rob Jones, Partner
rjones9@uk.ey.com

Rachel Wynne, Senior Manager
rachel.wynne@uk.ey.com

Financial Statements audit

We are responsible for conducting an audit of the 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 2022/23 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 Dimensions

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements put in place 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 2022/23

Planning Materiality

- Overall materiality for the financial statements
- Initial assessment based on the Board's Revenue Resource Limit

£33 million

Performance Materiality

- We have assessed performance materiality at 50% of overall materiality for the financial statements.

£16.5 million

Reporting Threshold

- Level of error that we will report to the Audit & Risk Committee.

£250,000

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Exhibit 2: Summary of significant risks identified for the audit in 2022/23

Five 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.
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. Valuation of PPP/PFI liabilities	The value of PFI/PPP liabilities represent significant balances in the Board's financial statements with the Board holding 16 different contracts. Accounting for these contracts includes a number of complexities, including ensuring the financial models reflect any contract amendments and inflationary uplifts.
5. Implementation of IFRS 16	IFRS 16 Leases is applicable in the public sector for periods beginning 1 April 2022. The Board will therefore transition to IFRS 16 from 1 April 2022. Successful transition will depend on the Board having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Board performed an initial impact assessment in 2021/22 and expected to recognise a right of use asset and equivalent liability of £23.7 million. This is material to our responsibilities, and we will review the completeness of this assessment as part of our 2022/23 work.

Exhibit 3: Summary of inherent risks identified for the audit in 2022/23

Four 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. Opening balances	As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510. There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.
3. Valuation of inventories	The Board held an inventory balance of £25.2 million as at 31 March 2022. Due to the Covid-19 pandemic, full stock counts were unable to be performed for the last two financial years and for approximately 13% of inventory balances, prior year information was used. There is therefore a risk that inventories are not accurately valued or that the balance is not complete.
4. Existence of moveable plant and equipment	As at 31 March 2022, the Board held plant and equipment of £131.8 million. While verification work is performed by the Board in respect of these assets, the volume and moveable nature of these assets increases the risk that they do not exist at year end.

Exhibit 4: 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	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 draft financial plan for 2023/24-2025/26 sets out a significant financial challenge with deficits forecast in each year ranging from £73.7 million in 2023/24 to £54.4 million in 2025/26. In prior years, the Board has relied upon non-recurring funding to achieve financial balance and therefore significant work is required to deliver a sustainable medium term financial plan.
2. **Vision, Leadership and Governance:** Scottish Hospitals Inquiry	The Board continues to respond to the Scottish Public Hospitals Inquiry and 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.
3. **Vision, Leadership and Governance:** Cybersecurity	There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.
4. **Use of resources:** Climate change reporting	Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. NHS Scotland is however aiming to become a net zero health organisation by 2040 at the latest with an NHS Scotland Climate Emergency and sustainability strategy being published in August 2022. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change, as part of a developing programme of work.

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.

NHS Recovery Plan

We recognise that Scotland's public services are facing unprecedented challenges. The Auditor General for Scotland publishes an annual report on the performance of the NHS in Scotland.

The NHS in Scotland 2021 report highlights the scale of the challenges brought about by the Covid-19 pandemic. While the NHS in Scotland continues to operate on an emergency footing, in August 2021, the Scottish Government published its NHS Recovery Plan 2021-2026. The plan outlines:

- how the Scottish Government aims to increase NHS capacity and address the backlog of healthcare while meeting ongoing healthcare needs; and
- the principles that will shape NHS recovery, including the short, medium and long-term investment planned to deliver improvements.

More recently, additional challenges include:

- the impact of significant winter pressures, such as unusually high levels of Covid and influenza infections;
- the impact of the cost of living crisis on salary demands, and risk of corresponding industrial action; and
- workforce planning and recruitment difficulties, particularly within the social care sector.

National Care Service Bill

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

Decisions on delivery models have yet to be taken but current Integrated Joint Board arrangements are expected 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. Social care services currently provided in-house by local authorities, may continue under a commissioning arrangement with the care board. However, the care board may take over direct delivery, with staff transferring employment from a council to the care board.

The Bill explains that the detail of how the new service will work will be co-designed with people who have direct experience of social care services. The timeline for the creation of a National Care Service is by the end of the current Parliament.

Audit Scotland published a briefing paper on Social Care on 27 January 2022 which noted that:

- there are huge challenges facing the sustainability of social care, with the pressures of increasing demand and demographic change growing.
- the workforce is under immense pressure.
- there are around 700,000 unpaid carers who provide most of the social care support in Scotland, with most not knowing their rights under the Carers (Scotland) Act 2016.
- commissioning tends to focus on cost rather than quality or outcomes.
- capacity and cultural differences are impacting leadership.

Councils and Boards across Scotland faced significant financial challenges during 2021/22 and are now entering the most difficult budget setting context seen for many years. Increasingly difficult choices about spending priorities will need to be made.

Scottish Government Spending Review

The Scottish Government's May 2022 Resource Spending Review (RSR) represented the first multi-year Resource Spending Review (RSR) in Scotland since 2011 and outlined the government's resource spending plans to the end of the current term of the Parliament in 2026/27.

The RSR assumes an overall cash-terms increase to the Scottish Government spending envelope of £5.7 billion over the period 2022/23 to 2026/27. The economic and financial context, including inflationary factors, means that there is an unprecedented financial challenge ahead.

In December 2022, the Scottish Government published the 2023/24 Scottish Budget. The budget included announcements that the Scottish government will:

- provide over £570 million in additional revenue and capital funding available to councils for 2023/24;
- invest over £13 billion in health boards to allow them to continue to drive forward the five-year Recovery Plan;
- continue to reform key services, and will allocate £2 billion to establish and improve primary health care services in the community;
- provide £1.7 billion for social care and integration to improve services and introduce the National Care Service; and
- an additional £100 million will be made available for health and social care, including support for the delivery of the £10.90 real living wage for adult social care, building on the increase provided in 2022/23.

Overall, as a result of decisions to increase income tax levels, the Scottish Government suggested that the amount spent on health and social care in Scotland will increase by over £1 billion in one year.

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

Introduction

The publication of the annual financial statements allow the 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 2022/23 FReM.

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

ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement

Our objective is to form an opinion on the financial statements under International Standards on Auditing (ISA) (UK). There have been significant changes to ISA (UK) 315 (ISA 315) that will impact our 2022/23 audit approach and the procedures we need to perform.

ISA 315 is effective from 2022/23 onwards and will drive our approach to:

- risk assessment;
- understanding the Board's internal control arrangements;
- the identification of significant risks; and
- how we address significant risks.

Key changes as a result of the implementation of ISA 315

The required audit methodology signifies a material change in the approach that management has been used to over the last appointment. Key changes will include:

- a significant increase in audit work on the Board's use of IT in the system of internal control;
- increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control;
- a greater focus on professional scepticism including that audit approaches don't show bias to looking for corroborative evidence or excluding contradictory evidence;
- we will make enhanced inquiries of management, or others within the Board who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties; and
- we will hold a discussion with those charged with governance regarding the risks of fraud in the Board and to consider the implications for the audit.

Audit Approach

For 2022/23 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 obtain 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 that we are not aware of any such relationships relating to the audit of NHS Greater Glasgow and Clyde.

Materiality

For planning purposes, Group and Board materiality for 2022/23 has been set at £33 million. This represents 1% of the Board's prior year revenue resource limit (RRL).

Materiality will be reassessed throughout the audit process 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 the Board's 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. We have provided supplemental information about audit materiality in Appendix F.

Specific Materiality

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.

Exhibit 5: Materiality

Element	Explanation	Value
Planning materiality	The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. This represents 1% of the Board's prior year Revenue Resource Limit.	**Group and Board: £33 million**
Performance materiality	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. We have set it at 50% of planning materiality.	**Group and Board: £16.5 million**
Reporting Level	The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.	£250,000

Group audit

The Board prepares its annual report and financial statements on a group basis. 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 2022 however the level is not expected to be significant to the Group overall (reflecting less than 10% of group assets). The Endowment Fund will be classified as a specific scope component meaning that the audit 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 auditors, BDO LLP.

The Integration Joint Boards are joint ventures with the respective local authority and are accounted for under the equity method. We have identified that the Integration Joint Boards will be treated as review scope meaning that our procedures will primarily consist of analytical review procedures and inquiries of management.

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.

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 early 2023, the NSI e-financials system was upgraded. At the time of writing, this is continuing to cause a number of challenges for the operation of the system across NHS Scotland. Additional procedures on the impact of the upgrade are anticipated.

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. These accounts had the following balances in the 2021/22 audited financial statements:

- Payables: £1,214.6 million
- Provisions: £395.9 million
- Receivables: £288.7 million
- Other operating expenditure: £4,092 million
- Staff costs: £2,203 million
- Operating income: £2,802.6 million

What is the risk?

In the last two financial years, a revised financial regime operated during the Covid-19 pandemic. The Board's financial plan for 2022/23 set out a financial challenge of £173 million with a savings target of £50 million and non-recurring funding bringing the reported funding gap down to £82 million. Over the course of the financial year to date, the Board has progressed with savings plans with the forecast gap significantly reducing.

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. We consider the risk is likely to relate to the overstatement of income, accrued income and other receivables, and understatement of expenditure, payable accruals, and provisions.

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 cut-off at the period end date;
- review SFR 30 data and investigate differences with counter-parties we consider to be significant;
- 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 recognition to be greater;
- perform specific testing over family health services income and expenditure including agreeing amounts recognised to form 12s and reviewing the finding of the service auditor reports; and
- test revenue and capital expenditure to ensure it has been appropriately classified.

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 this 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 2021/22 financial statements, the Board held £2.4 billion of property, plant and equipment with £2.2 billion relating to land and buildings. Additions totalled £90 million with completions of £85.6 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.

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

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;
- 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;
- 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; and
- review operating expenditure for evidence of capital additions omissions.

4. Valuation of PFI/PPP Liabilities

Financial Statement Impact

The value of PFI/PPP liabilities represent significant balances in the Board's financial statements with the Board holding 16 different contracts. Accounting for these contracts includes a number of complexities ensuring the financial models reflect any contract amendments and inflationary uplifts.

Within the 2021/22 financial statements, the Board held £307 million in respect of PFI/PPP contract liabilities.

What is the risk?

Due to the complexity of accounting for PFI/PPP contracts and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries, reflect the correct accounting model and that related commitments are not correctly disclosed.

Our response: Key areas of challenge and professional judgement

We will:

- review the contractual agreements for each PFI/PPP asset and confirm any contract amendments have been appropriately reflected within the liability valuation;
- ensure that that accounting models have been appropriately and accurately updated to reflect inflationary uplifts and actual unitary charge payments;
- test accounting entries have been correctly processed in the financial statements;
- involve EY internal specialists to review and challenge the accounting models for each PFI/PPP contract; and
- review financial statement disclosures to ensure commitments are appropriately disclosed.

5. Implementation of IFRS 16

Financial Statement Impact

IFRS 16 Leases is applicable in the public sector for periods beginning 1 April 2022. The Board will therefore transition to IFRS 16 from 1 April 2022.

The Board performed an initial impact assessment in 2021/22 and expected to recognise a right of use asset and lease liability of £23.7 million. This is material to our responsibilities, and we will review the completeness of this assessment as part of our 2022/23 work.

What is the risk?

IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short term leases. These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition will depend on the Board having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Board will also have needed to have developed systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

Our response: Key areas of challenge and professional judgement

We will:

- gain an understand the processes and control developed by the Board relevant to the implementation of IFRS 16;
- test for the discount rate that is used to calculate the right of use asset;
- review management policies, including whether or not to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components;
- test that the £23.7m right of use asset identified in the PY is correct;
- sample test for new leases, changes to leases, termination of leases, and subsequent measurement in year; we will review lease agreements and consider whether or not lease and non-lease agreements are correctly identified. We will also confirm the lease start date and lease term; and
- ensure that lease and right of use asset financial statement disclosures are in line with the requirements of the FReM and Annual Accounts Manual.

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

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. These provisions totalled £357 million in the 2021/22 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 2023;
- assess whether provisions, including CNORIS, are recorded in line with the FReM and the Board's accounting policies, and have been accounted for appropriately; and
- 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.

Opening balances

As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.

There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

We will undertake the following procedures:

- agree the opening balance sheet position to the underlying financial records held by management;
- review the prior year working papers by the departing auditors to understand the procedures completed and if they need to be supplemented or followed up in any way;
- consider unusual material transactions posted by management in the first accounting periods of 2022/23, which may indicate correction of previous errors, and understand the basis for these transactions; and
- review post 31 March 2022 actual transaction data for estimates made at the previous balance sheet date to assess the reasonableness of estimates made.

Valuation of inventories The Board held an inventory balance of £25.2 million as at 31 March 2022. Due to the Covid-19 pandemic, full stock counts were unable to be performed for the last two financial years and for approximately 13% of inventory balances, prior year information was used. There is therefore a risk that inventories are not accurately valued or that the balance is not complete.	In response to this risk we will: - ensure that the Board has an appropriate programme of year end inventory counts; - attend a sample of year end inventory counts to ensure that appropriate counts and valuations have occurred; and - ensure that stock valuations are appropriately reflected within the financial statements.
Existence of moveable plant and equipment As at 31 March 2022, the Board held plant and equipment of £131.8 million. While verification work is performed by the Board in respect of these assets, the volume and moveable nature of these assets increases the risk that they do not exist at year end.	In response to this risk we will: - review management's procedures to confirm the existence of moveable plant and equipment; and - physically verify a sample of assets to ensure they remain in existence at year end.

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 Covid-19, 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.

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
- The 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.

Best Value

The Code explains the arrangements for the audit of Best Value in NHS organisations. 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 in place 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. At this stage, we anticipate conducting this work in 2024/25.

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.

The 2021/22 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 to result in a material misstatement in the financial statements. Like many health boards, the Board relied on non-recurring Covid-19 funding to achieve financial balance in 2021/22.

As part of our risk assessment and planning procedures, we have reviewed the Board's financial monitoring reports. The Board's financial plan for 2022/23 set out a financial challenge of £173 million. A savings target of £50 million and non-recurring funding resulted in a reported funding gap of £82 million. The forecast deficit for 2022/23 had reduced to £30.9 million by December 2022. Focused effort is underway to bridge the remaining gap, including the identification of additional recurring and non-recurring savings, and ensuring that financial controls are adhered to.

The Board has recently launched a Sustainability and Value Programme (SVP) to seek efficiencies and transformational savings that will help to deliver financial balance which replaces the previous Financial Improvement Programme (FIP).

Our response

As part of our year one 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;
- 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.

We recognise that the pandemic has continued to have a significant impact on the Board's financial planning. Financial planning has been further complicated by increased demand on services, the cost of living crisis and inflationary pressures. The 2021/22 Annual Audit Report noted that the creation of a robust medium term financial plan is a complex and challenging process, particularly in such an uncertain environment.

Scottish Government has requested that a 3-year financial plan is submitted in February 2023 with a final version in March 2023. The draft financial plan highlights the scale of the challenge facing the board with an overall financial challenge of £191.6 million.

The Board has recently established a Sustainability and Value Programme which replaces the previous Financial Improvement Programme. Savings programmes will need to be implemented at pace to ensure that the Board can achieve financial balance both in 2022-23 and future years.

Our response

We have identified a wider scope significant risk in Exhibit 6 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 6: Financial Sustainability Area of Audit Focus	
Development of sustainable and achievable 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 draft financial plan for 2023/24-2025/26 sets out a significant financial challenge with deficits forecast in each year ranging from £73.7 million in 2023/24 to £54.4 million in 2025/26. In prior years, the Board has relied upon non-recurring funding to achieve financial balance and therefore 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 established Active Governance as part of the implementation arrangements for the NHS Scotland Blueprint for Good Governance issued in 2019. A further assessment against the revised NHS Scotland Blueprint for Good Governance issued in late 2022 will be performed.

The board receives an Integrated Performance Report at each meeting, which outlines performance over time, along with relevant actions to improve, where relevant.

In addition to the Code of Conduct for Members, the Board also has a Code of Conduct for Staff. This includes reference to the disclosure internally or externally by staff who have concerns about patient safety, malpractice, misconduct, wrongdoing or serious risk. In addition, all health boards in Scotland are required to abide by the national Whistleblowing Standards, as published by the Scottish Public Services Ombudsman.

While the Board's overarching strategy to modernise the way that healthcare and social care services in Greater Glasgow and Clyde are provided, Moving Forward Together (MFT), was approved in June 2018, the pandemic has had a significant impact on the development of the strategy. In some cases the implementation of some MFT recommendations has been accelerated by the need to respond rapidly to the demands of the pandemic

During the period of the pandemic, the Scottish Government requested that NHS Boards produce and regularly revise remobilisation plans outlining plans for the restoration of normal health services. In addition, an Annual Delivery Plan was sent to the Scottish Government, in line with their requirements, in July 2022 and considered by the Board in October 2022. This notes that in the twelve months ahead, the Board will build on the transformational change undertaken to date and embed the innovative practice recently established. As a result, we will consider the strategic planning process, and the link with performance reporting.

The Board's 2021/22 Annual Audit Report notes that 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. In June 2022, the Board was de-escalated from stage four to stage two of the NHS Scotland Board Performance Escalation Framework. However, the Board continues to assess, and where appropriate, update the arrangements it has to respond the Scottish Public Hospitals Inquiry 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. We have assessed this area as an area of focus in 2022/23 (refer to Exhibit 7, below).

Audit Scotland's 2022/23 planning guidance also notes the continuing significant risk of cyber attacks to public bodies, and will therefore require specific audit work to be undertaken to respond.

Our response

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

- consider the progress of the Inquiry, including update reporting to the Board;
- Assess the impact of the inquiry on management and the Board's capacity; and
- consider the potential accounting implications of any developments.

We will also review the Board's arrangements for cybersecurity, drawing on our work in response to ISA (UK) 315.

Other work in 2022/23 will consider:

- consideration of the disclosures within the Governance Statement;
- review of the coverage of internal audit arrangements during 2022/23, including any significant findings identified and the work done to address issues identified; and
- consideration of the quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny.

Exhibit 7: Vision, Leadership and Governance Areas of Audit Focus

Scottish Hospitals Inquiry	The Board continues to respond to the Scottish Hospitals Inquiry and 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.
Cybersecurity	There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.

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.

We recognise that the Board's performance continues to be significantly impacted by the pandemic, particularly in activity and waiting times measures. In January 2023, the Board suspended non-urgent elective procedures due to the unprecedented challenge impacting NHS bodies across Scotland as a result of major pressures including significant Covid, influenza and norovirus levels.

Audit Scotland has also identified a national risk in relation to tackling climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. As a result, we will consider the Board's strategy for climate change, alongside any narrative reporting in the financial statements.

Our response

We have identified an area of audit focus in relation to climate change in Exhibit 8 below. Our work in this area will include consideration of:

- the Board's climate change strategy and progress reporting arrangements including alignment to NHS Scotland's climate emergency and sustainability strategy; and
- alongside any narrative reporting in the financial statements.

Other work in 2022/23 will consider the Board's arrangements to report performance, and the escalation process where performance continues to be challenging.

Exhibit 8: Use of Resources Area of Audit Focus

Climate change reporting	Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. NHS Scotland is however aiming to become a net zero health organisation by 2040 at the latest with an NHS Scotland Climate Emergency and sustainability strategy being published in August 2022. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change, as part of a developing programme of work.

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

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 independence to act as your external auditor. We have identified no relationships that impact the audit of NHS Greater Glasgow and Clyde.

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	▸ 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 2023

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ 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 2023
Misstatements	▶ 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 2023
Fraud	▶ 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 2023
Internal controls	Significant deficiencies in internal controls identified during the audit.	Annual Audit Report - June 2023
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report - June 2023

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	▸ 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 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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 2023)
External confirmations	▸ Management's refusal for us to request confirmations. ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report – June 2023
Representations	Written representations we are requesting from management and/or those charged with governance.	Annual Audit Report – June 2023
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Annual Audit Report – June 2023

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▶ 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 2023
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 2023
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 2023
Group matters	▶ 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 2023

Appendix D: Timeline of communication and deliverables

	Audit Activity	Deliverable	Timing
January February	**Planning:** Risk assessment for Financial Statements and wider scope audit dimensions		
March April	Walkthrough of key systems and processes, including internal controls. Interim audit testing.	Annual Audit Plan Submission of quarterly fraud return	March 2023
May June	Year end audit fieldwork	Submission of quarterly fraud return	
July	Audit completion procedures	Annual Audit Report	30 June 2023

2022/23 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.

	2022/23	2021/22
Component of fee:		
Auditor remuneration – expected fee	£392,220	
Additional audit procedures (See below)	TBC	
Audit Scotland fixed charges:		
Pooled costs	£35,490	
Audit support costs	£15,340	
Sectoral cap adjustment	£63,260	
Total fee	£506,310	£415,810

The expected fee for auditor remuneration, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. It assumes that the Board has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. This is the basis for the estimated level of time and skill mix involvement by auditors.

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line the requirements of the Audit Scotland Code of Practice. In these cases where subsequent additional work is required because of local risks and circumstances in a body, auditor remuneration may be increased by up to 10% of auditor remuneration in agreement with the Board, or above 10% in agreement with Audit Scotland. In particular at this stage we would raise the possibility around potential additional financial statement audit work being required related to new audit requirements this year for ISA 315 and our initial audit procedures, and additional consideration being required around the governance and associated disclosures related to the ongoing public inquiry and litigation related to the Scottish Hospitals Inquiry.

Should additional audit requirements arise we will 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 Committee within our Annual Audit Report.

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 proving 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-202122
- 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.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com