NHS Greater Glasgow and Clyde

Annual Audit Report

Year ended 31 March 2023

30 June 2023

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 Report 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

1. Executive summary: Key conclusions from our 2022/23 audit

Financial Statements

We have concluded our audit of the financial statements of Greater Glasgow and Clyde NHS Board (the Board) for the year ended 31 March 2023. 18 adjustments were made to the financial statements. We identified 33 unadjusted differences relating to 2022/23 and a further 14 unadjusted differences and 1 adjusted difference relating to 2021/22 that we are required to communicate. The draft financial statements and supporting working papers were provided on time with the exception of the remuneration and staff report and related parties disclosures. The financial statements and working papers were of a reasonable quality. We will continue to work with management to further improve the quality of their working papers and responses to audit queries.

We worked with management to make some enhancements to the presentation of the performance report, accountability report and the remuneration and staff report.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration and Report and the Annual Governance Statement were appropriate. We were materially satisfied that the Annual Governance Statement reflects the requirements of the Scottish Public Finance Manual ('SPFM') and the Government Financial Reporting Manual ('the FREM').

We made 15 recommendations as a result of the annual audit, of which 3 were graded as high priority (Grade 1), 9 graded moderate priority (Grade 2) and 3 were graded low priority (Grade 3). These, together with management responses, are included within the action plan in Appendix G.

Going Concern

In accordance with the Government Financial Reporting Manual ('the FReM'), the Board prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Board has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the ongoing impact of Covid-19, increased demand for services and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Board.

Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

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, has resulted 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 2023 to the Scottish Government which outlines annual deficits of £71.1 million in 2023/24, £79.8 million in 2024/25 and £54.5 million in 2025/26 resulting in a cumulative deficit of £210 million with £225 million of savings to be achieved across the three year period from 2023-2026. This deficit reduced marginally in April 2023 by a total of £5 million to £205 million following approval of a revised medium term plan. In order for the Board to achieve breakeven a total of £509 million of savings will be required over the next three financial years. Management continue to explore options to deliver savings, however the scale of the challenge is significant and will require collaboration both within the Board and other stakeholders. It will also require the Board to deliver savings on a recurring basis, which has historically been an area of challenge, with only a third of savings in recent years being made on a recurring basis. Our assessment reflects the ongoing challenges facing the Board, the NHS and considers the level of risk and uncertainty outside the Board's control which could impact it's ability to deliver savings.

Financial Management

The Board met all financial targets in 2022/23 with an underspend of

£0.783 million against their revenue resource limit, following an updated allocation letter issued on 23 June 2023. The financial position throughout the year was challenging and the majority of savings delivered to reach financial balance were done so on a non-recurring basis. The Board continues to review and identify areas to deliver recurring savings to ensure their medium and long-term sustainability.

The Board is by the far the largest health board in Scotland, however the number of qualified accountants is comparable to most other boards. We have noted that there is significant dependency on a small number of key individuals for complex and technical accounting matters. While changes are planned, this should be a key area of focus for the Board alongside ensuring that appropriate succession planning arrangements are in place for key finance roles.

Vision, leadership and governance

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 have been demonstrated by the Board during the year.

The Board has experienced significant turnover in key roles within the Executive Management team and the Chair of the Board will also complete his appointment in November 2023. The Board should continue to ensure there are appropriate transition arrangements for key senior roles.

The Board continues to highlight cyber threats as a key risk area and continues to seek support from external experts to ensure there is an appropriate control environment to mitigate the risk.

The Board continues to assess, and where appropriate, update the arrangements it has in place to respond to the Scottish Public Hospitals Inquiry, the ongoing police investigation and the legal proceedings against the parties responsible for delivering the QEUH/RHC construction project. However, the challenges are significant, and are placing additional pressures on senior management that need to be balanced with other priorities.

Use of resources to improve outcomes

The Board considered regular performance updates against the Annual Delivery Plan measures throughout the year. Performance has improved against the Board's KPIs during 2022/23, with 66% of targets being met compared to 48% in 2021/22. However, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to 15 targets reported against in 2022/23. While the overall trajectory shows improvement, there are 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.

NHS Scotland has set ambitious climate change targets with the target to be net zero by 2040. The Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. A Sustainability Strategy is due to be endorsed by the Board in August 2023. The establishment of this strategy will provide the Board with a mechanism to set a clear pathway to achieving the NHS Scotland target.

Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 ("the Act"), the Auditor General for Scotland appointed EY as the external auditor of NHS Greater Glasgow and Clyde ("the Board") for the five year period 2022-23 to 2026-27. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; Auditing Standards, and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is intended to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Board and the Auditor General for Scotland, and is presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Board. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

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, our observations around where the Board employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Board in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

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

Scope and responsibilities

The Code sets out the responsibilities of both the Board and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan which was presented to the Board's Audit and Risk Committee on 14 March 2023.

Our review and assessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £33 million. We considered whether any changes to our materiality was required, including due to the Board's 2022/23 financial performance. As a result of a reduction to the Board's core revenue resource limit, our materiality was revised to £30.5 million.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the remuneration report and related party transactions.

Exhibit 1: Materiality Assessment in 2022/23

Planning Materiality	Performance Materiality	Reporting Threshold
• Overall materiality for the financial statements • Initial assessment based on the Board's Revenue Resource Limit	• We have assessed performance materiality at 50% of overall materiality for the financial statements.	• Level of error that we will report to the Audit & Risk Committee.
£30.5 million	£15.25 million	£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.

Financial Statement audit

We are responsible for conducting an audit of the Group and Board's financial statements. We provide an opinion at 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 other information prepared and published along with the financial statements. Our findings are summarised in section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial Sustainability;
- Vision, leadership and Governance; and
- Use of resources to improve outcomes.

2. Financial Statement audit

Introduction

The annual financial statements provide the Board with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

Compliance with Regulation

As part of our oversight of the Board's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

The draft financial statements and supporting working papers were provided on time with the exception of the remuneration and staff report and related parties disclosures. The financial statements and working papers were of a good quality.

The financial statement were updated for changes to the Annual Accounts Manual and the FREM, including the changes associated with IFRS 16 implementation.

Preparation of the Financial Statements

The financial statements prepared by management were to a good standard and were materially compliant with the Annual Accounts Manual, FREM and required disclosures. As part of the audit process, we worked with management and the finance team to make enhancements to the presentation of the performance report, accountability report and the remuneration and staff report. We will continue to work with management and the finance team to enhance the understandability of the performance and accountability reports, as set out in Appendix G, recommendation 1.

Further amendments were also made to enhance disclosures around key estimates and judgements within the financial statements.

Group financial statements

The Board prepares its annual report and financial statements on a group basis. The Group consists of the following organisations in addition to the Board:

- 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).

The Endowment Fund (the Fund) is fully consolidated. Income and expenditure for the endowment fund is immaterial to the Group however the Fund holds a material level of assets.

As set out in our Annual Audit Plan, we classified the Fund 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 the accounts.

Due to the nature of the investments held by the Fund, we issued group instructions to the Fund auditor, BDO LLP. The instructions covered specific procedures in respect of cash and investments only.

Our communications with the component auditor note that the Fund audit is complete and no significant matters have been brought to our attention which impact the Group.

The Integration Joint Boards are joint ventures with the respective local authority and are accounted for under the equity method. We determined that the Integration Joint Boards were review scope components meaning that our procedures primarily consisted of analytical review procedures and inquiries of management. We have obtained confirmation from the Integration Joint Board Chief Financial Officers regarding the balances to be included within the Group financial statements.

We are satisfied that the consolidated financial statements have been prepared appropriately. Our work included reviewing the consolidation entries made within the group financial statements and confirming those entries back to component financial statements.

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 shared audit findings.

Across NHS Scotland, a number of shared services exist as set out in Exhibit 2 for which independent service auditor's reports are provided in line with International Standard on Assurance Engagement 3402.

In early 2023, the NSI e-financials system was upgraded which impacted some system functionality and included data transfers. In response to this, we performed additional procedures including:

- Reviewing the reconciliation between the data held within e-financials both pre and post transfer to ensure the data transfer was processed correctly.
- Performing a walkthrough of key financial processes and controls both pre and post the upgrade to ensure there were no amendments to controls.
- Performing targeted journal testing over the period where system functionality problems occurred to ensure that transactions posted were both complete and accurate.
- Utilised data analytics to identify any unusual data patterns which would indicate data quality issues or omissions.

The performance of these procedures has not identified any issues.

Exhibit 2: Summary of service auditor assurances

Shared Service	Service Assurance
National Practioner and Counter Fraud Services This report provides assurances over the controls to support the four family health services payment streams relating to medical, ophthalmic, dental and pharmacy.	NHS National Services Scotland (NSS) procures a service auditor report from KPMG LLP. In May 2023, KPMG LLP reported an unqualified audit opinion. We considered the findings of the report and are satisfied findings do not have a material impact on our audit approach or conclusions.
National IT contract This contract with NHS National Services Scotland covers the services provided by ATOS IT Services Limited in respect of IT services controls supporting payroll services and practitioner and counter fraud services.	NHS NSS procures a service auditor report from KPMG LLP. In May 2023, KPMG LLP reported an unqualified audit opinion. We considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.
National Single Instance (NSI) Financial Ledger Services NHS Ayrshire and Arran operate the NSI financial ledgers services on behalf of all Scottish Health Boards.	NHS Ayrshire and Arran procure a service auditor report from BDO LLP. In May 2023, the service auditor highlighted no critical or significant findings and reported an unqualified opinion.

Remuneration and staff report

The Board must prepare a remuneration and staff report in line with the requirement of the FReM and the Annual Accounts Manual. We received the remuneration report on 15 May 2023. The Board has had significant turnover in the senior management team which has led to additional complexities in preparing remuneration disclosures. Information required from SPPA was provided on 15 June 2023, however a number of inconsistencies with the Board's records were identified and clarifications sought from SPPA. This information was received on 23 June 2023 and following audit review, the remuneration and staff report has been appropriately updated. Refer to Appendix G, recommendation 15 for areas of improvement identified in respect of the preparation of the remuneration and staff report.

Audit Outcomes

We identified 18 adjusted audit differences arising from the audit which have been reflected within the financial statements. A further 33 differences remain unadjusted. We identified 14 unadjusted audit differences and 1 adjusted difference relating to the prior year financial statements. The differences related to a wide range of areas with the majority relating to classification differences across both balance sheet and income and expenditure accounts. Our overall audit opinion is summarised on the following page.

We made 15 recommendations as a result of the annual audit, of which 3 were graded as high priority (Grade 1), 9 graded moderate priority (Grade 2) and 3 were graded low priority (Grade 3). These, together with management responses are included within the action plan in Appendix G.

Key audit matters

Under the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Exhibit 3: Our audit opinion

Element of our opinion	Basis of our opinion	Conclusions
Financial Statements ➢ Truth and fairness of the state of affairs of the Group and Board at 31 March 2023 and its expenditure and income for the year then ended ➢ Financial statements in accordance with the relevant financial reporting framework	▶ We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. ▶ We are satisfied that accounting policies are appropriate and estimates are reasonable ▶ We have considered the financial statements against the FREM and Annual Accounts Manual requirements, and additional guidance issued by the Scottish Government and Audit Scotland.	We issued an unqualified audit opinion on the 2022/23 financial statements for the Board and its Group.
Going concern ➢ We are required to conclude on the appropriateness of the use of the going concern basis of accounting	▶ We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. ▶ Wider scope procedures including the forecasts are considered as part of our work on financial sustainability	In accordance with the work reported on page 30, our audit opinion is unqualified in this respect.
Other information ➢ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	▶ We conduct a range of substantive procedures on the financial statements. ▶ We conduct a range of substantive procedures on the financial statements and our conclusion draws upon review of committee and board minutes and papers, regular discussions with management, our understanding of the Group, Board and the wider sector.	We are satisfied that the performance, accountability and remuneration and staff report meets the core requirements set out in the FREM and Annual Accounts Manual.

Exhibit 3: Our audit opinion continued

Element of our opinion	Basis of our opinion	Conclusions
Matters prescribed by the Auditor General for Scotland ▶ Audited part of Remuneration and Staff Report has been properly prepared ▶ Performance report, Accountability report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.	Our procedures include: ▶ Reviewing the content of narrative disclosures to information known to us. ▶ Our assessment of the Annual Governance Statement against the requirements of the SPFM and the FREM.	We issued an unqualified opinion.
Matters on which we are required to report by exception	We are required to report on whether: ▶ there has been a failure to achieve a prescribed financial objective, ▶ adequate accounting records have been kept, ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or ▶ we have not received the information we require.	We have no matters to report.

Significant and fraud audit risks

1. Risk of fraud in revenue and expenditure recognition (Key audit matter)

As outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

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 a financial challenge of £173 million with a savings target of £50 million and non-recurring savings bringing the reported gap down to £82 million. Over the course of the financial year, the Board has progressed savings plans and obtained additional funding which reduced the gap to a small underspend position.

Our Annual Audit Plan highlighted that 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 this risk to be most prevalent at year end and relate to income (£2.86 billion, PY comparative £2.7 billion), accrued income (£7.5 million, PY comparative £15.4 million), other receivables (£44.5 million, PY comparative £21.3 million), non-payroll expenditure (£3.86 billion, PY comparative £4 billion) payables accruals (£357 million, PY comparative £494 million), deferred income (including contract liabilities) (£54.8 million, PY comparative £65.9 million and provisions (£442 million, PY comparative £396 million). Refer to accounting policies (page 89 to 106) and notes 3, 4, 9, 12 and 13 of the Consolidated financial statements.

Our response: Key areas of challenge and professional judgement

We undertook specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- Review and test revenue and expenditure cut-off for an extended period 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 detailed testing over manual year-end accrued income and other receivables, accrued expenditure, and provisions to a lower threshold;
- Perform specific testing over family health services income and expenditure including agreeing amounts recognised to 'form 12s' and reviewing the findings of the service auditor reports; and
- Test revenue and capital expenditure to ensure it was appropriately classified.

Area of focus: Activity Shortfall accrual related to service level agreements with NHS Scotland health boards

The Board provides services to patients from other territorial health boards who have been transferred onto the Board's waiting lists through service level agreements (SLA) in place with 11 other boards. The value of these agreements was based on actual activity levels across different specialisms, using three year rolling average activity and costings. Prior to Covid-19, the Board was able to materially deliver the activity set out in the agreements, however the Covid-19 pandemic significantly changed the Board's ability to deliver the level of activity in the SLAs. No formal contract amendments were made at this time, and agreement was made nationally between Boards to maintain payments and transfers of patients in line with the pre-Covid arrangements.

Since 2020/21 the Board has accounted for the income and expenditure related to these SLA's by recognising the full income on transfer of patients to the Board's waiting lists, and accruing any "shortfall" in activity / expenditure at the yearend to reflect an estimate of the future costs that will be incurred in treating patients who have transferred.

Exhibit 4: Activity Shortfall Accrual and revenue

Financial year	Accrual value (£'000s)	Total annual contract revenue (£'000s)
2020/21	£54,131	£329,584
2021/22	£98,082	£341,847
2022/23	£103,496	£364,619

Through discussion and engagement with management, review of the relevant SLAs and supporting schedules and engagement with both our internal and Audit Scotland's technical teams, we have concluded that the appropriate accounting treatment would be to recognise income in line with the requirements of International Financial Reporting Standard 15, IFRS 15 "revenue from contracts with customers".

This accounting standard requires revenue to be recognised when the performance obligation is satisfied, being the treatment of those patients who have been transferred onto the Board's own waiting lists. This means that revenue received for patients not treated should be deferred on the balance sheet as a "contract liability" until subsequently recognised through the delivery of those obligations.

Area of focus: Activity Shortfall accrual related to service level agreements with NHS Scotland health boards

The impact of amending the current accounting approach to one which is consistent with the principles of IFRS 15 resulted in material adjustments to correct prior year errors in the financial statements for 2020/21, 2021/22 and in the current 2022/23 financial year, as set out in Appendix F.

- The expenditure and subsequent accrual for future costs is removed, reducing both expenditure and the balance sheet accrual at 31 March each year with a reduction of £98 million in 2021/22 and £5 million in 2022/23.
- A portion of the SLA income recognised is removed and retained on the balance sheet as a creditor under "contract liability". A contract liability of £51.2 million has been recognised in 2022/23 and £62.6 million in 2021/22.

The two changes noted have resulted in a surplus of £35.5 million in 2021/22 and an improvement to the final financial outturn in 2022/23 of £16.7 million. Due to the materiality of the accounting balances management have retrospectively amended the prior year balances as well as including "restated" on the primary financial statements and supporting notes, with an additional explanatory note for the reader of the financial statements.

In order to confirm the accuracy of the required adjustments, we worked with management to test the underlying information, utilising where possible, our existing testing over the accrual. In particular we :

- Agreed the adjustments for each year removing the previously accrued expenditure for future required activity.
- Gained an understanding of the methodology applied to the recognition of income in each year in line with the performance of the relevant obligations to treat patients in line with the requirements of IFRS 15.
- Tested the underlying data driving the revenue recognition and subsequent deferral of remaining revenue as a contract liability to supporting information for relevant patients.
- Agreed the mathematical accuracy and presentation of the adjustments to the financial statements, including internal consultation on the correct presentation of the prior year adjustments and supporting schedules.

In respect of the prior period adjustment, we concur with the amended accounting treatment with no impact on our audit opinion.

Please refer to Appendix G, recommendations 2 and 3 for further details of improvement areas identified.

Our conclusions

- Our work in respect of accruals and accrued income is complete. Our testing has identified one adjustment in respect of a duplicated accrual for £1.8 million. Further adjustments have been identified in respect of the classification of both receivables and payables balances.
- Our work in respect of the activity shortfall accrual and associated revenue is complete. We have identified judgemental differences in each year as set out in Appendix F.
- We identified inconsistencies in how the Board accounted for the resource transfer expenditure with partner local authorities based on information shared from one of the health and social care partnerships which resulted in an adjustment of £1.9 million reclassification between income and expenditure.
- The Board processes payroll for a number of other health boards and local hospices. In these instances, the Board acts as an agent however both the payroll costs and income for recovery of these costs were included within the Board's financial statements.
- We identified one classification error from our revenue testing of £0.26 million in respect of income from other NHS bodies classified as private patient income.
- In May 2023, the Scottish Government proposed a 14.5% pay increase to junior doctors including an additional 3% relating to be backdated for 2022/23. In June 2023, this offer was rejected. We have evaluated whether the offer creates a liability to the Board. As set out in appendix F, Management has elected not to adjust for the potential backdated pay of approximately £5 million however disclosures have been added to the financial statements to set out the potential liability. This decision is based on the current status of the pay negotiations and associated uncertainty of any agreement.
- Our procedures have identified a number of classification errors. Management should ensure that a thorough review is performed to reduce the number of such errors in future years. Refer to Appendix G, recommendation 4.
- We further identified a number of errors in respect of accruals including calculation differences, accruals in respect of future expenditure and double counted accruals. Management should assess the current review procedures and identify areas where this could be enhanced to reduce the volume and value of errors identified. Refer to Appendix G, recommendation 14.
- All adjustments as noted above are included within Appendix F.
- Based upon the audit procedures performed, we conclude that revenue and expenditure has been appropriately recorded in accordance with the requirements of the Government Financial Reporting Manual (chapter 7 and 11).

Risk of management override (Key audit matter)

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit.

We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated.
- Journals adjusting between income and expenditure accounts and capital accounts.
- We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Due to the current processes adopted by the finance team, we were unable to fully utilise our data analysers due to the name of the individual who prepared the journal not being recorded on the system as it is posted by a separate individual. We have recommended that this process is reviewed by the Board within Appendix G, recommendation 5.

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the Board's audit from 2020/21. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to early retirement provisions and clinical and medical negligence claims (outlined on page 26 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets(such as property, plant and equipment, outlined on page 21 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Board to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the FReM.

Our conclusions

Excluding considerations in respect of the activity shortfall accrual:

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. However, we have identified areas for efficiency. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.
- We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the FReM or Annual Accounts Manual.

2. Valuation of Property, Plant and Equipment (Key audit matter)

Financial Statement Impact

The Board held £2.5 billion (2021/22: £2.4 billion) of property, plant and equipment with £2.23 billion (2021/22: £2.19 billion) relating to land and buildings. Additions totalled £92 million, with completions of £64 million. 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.

Refer to accounting policies (page 89 to 106) and note 7 of the Consolidated financial Statements.

Our response: Key areas of challenge and professional judgement

Our approach included:

- review and appraisal of 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 testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- involving EY internal specialists to challenge the work performed by the Board's valuers, where appropriate;
- assessing any changes to useful economic lives;
- testing accounting entries have been correctly processed in the financial statements;
- sample testing transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- reviewing management's impairment assessment and assess the completeness of impairment considerations;
- gaining 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
- reviewing operating expenditure for evidence of capital addition omissions.

Our conclusions

Valuations

- In line with other NHS Boards, the Board engages an external valuer, the District Valuer, to inform management's assessments and judgements applied in respect of the valuation of land and buildings. Following the provision of the valuer's advice, management should review and challenge the valuer's assessment against their own understanding of the Board's estate and other external factors. While management advise this takes place, we noted that there was limited evidence of the Board's evaluation of the valuations and any questions issued to the valuer.
- The Board's valuer adopts a beacon approach specifically designed by the District Valuer. While this approach may be compliant with industry standards, the level of effort required by third parties to understand this approach is significant. As set out within Appendix G, recommendation 6, for future years, the Board should work with the valuer to ensure an appropriate level of detail on the methodology can be provided to both management and the auditor in a timely manner.
- Our assessment is that the valuations of land and buildings falls within an acceptable range, recognising the significant judgements and estimation inherent with such valuations. Within that range, we noted that a greater proportion of assets subject to audit review fall within the lower quartile. This should be an area of focus for the Board to ensure that assets are appropriately valued.
- Our work in respect of valuations is complete and no further matters have been identified from the work performed.
- Based upon the audit procedures performed, we conclude that PPE has been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapter 7 and 10).

Additions

- We identified a number of errors in respect of equipment which should have been transferred into additions both in 2021/22 and 2022/23 as set out in Appendix F; due to the value of the errors, these have been corrected within 2022/23. We have further identified items capitalised in 2022/23 which were completed in 2023/24. While the Board has taken steps to improve procedures to review balances within assets under construction and ensure they are appropriately capitalised in a timely manner, this should be a continuing area of focus for the Board. Refer to Appendix G, recommendation 7.
- Our work in respect of additions is complete and no further matters have been identified from the work performed

3. Valuation of PFI/Hub Liabilities (Key audit matter)

The value of PFI/Hub 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 2022/23 financial statements, the Board held £299 million (2021/22: £307 million) in respect of PFI/PPP contract liabilities (refer to accounting policies (page 89 to 106) and note 17 of the Consolidated financial Statements). 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

Our procedures included:

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

Our conclusions

- Our work in respect of PFI/Hub liabilities is complete however we have identified a total adjustment of £13.5 million as noted in Appendix F. This included £12.5 million in relation to prior years.
- We engaged our specialists to support our procedures, taking into account the models had not been subject to detailed specialist review before. These procedures identified a number of inconsistencies between the original operator's model and the financial model used to support the preparation of the financial statements. Due to the age of some contracts, challenges have been encountered in obtaining sufficient evidence to explain the inconsistencies partially due to staff turnover and document retention.
- A number of improvements have been identified in respect of the completion and monitoring of the PFI contracts as set out in Appendix G, recommendation 8.
- Based upon the audit procedures performed, we conclude that PFI/Hub liabilities have been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapters 7 and 10).

4. Implementation of IFRS 16 (Key audit matter)

IFRS 16 Leases was applicable in the public sector for periods beginning 1 April 2022. The Board has therefore transitioned to IFRS 16 from 1 April 2022 with adjustments reflected within their 2022/23 financial statements.

The opening position as at 1 April 2022 showed a right of use asset and liability of £22.2 million with additions of £6.2 million in year. The Board held £24.7 million in respect of right of use assets and £19 million in associated liabilities as at 31 March 2023. Refer to accounting policies (page 89 to 106) and note 16 of the Consolidated financial Statements.

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 are now recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition depended on the Board capturing additional information about leases, both new and existing, especially regarding future minimum lease payments. The Board will also require 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

Our procedures included:

- gaining an understand the processes and control developed by the Board relevant to the implementation of IFRS 16;
- testing that the correct discount rate is used to calculate the right of use asset;
- reviewing 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;
- testing that the £23.7 million right of use asset identified in the PY is correct;
- sample testing for new leases, changes to leases, termination of leases, and subsequent measurement in year; we reviewed lease agreements and considered whether or not lease and non-lease agreements were correctly identified. We also confirmed the lease start date and lease term; and
- ensuring that lease and right of use asset financial statement disclosures are in line with the requirements of the FReM and Annual Accounts Manual.

Our conclusions

- We identified one monetary disclosure adjustment due to the Board not allocating the lease liability across the correct timing of payments. This adjustment is set out in Appendix F.
- We worked with management to enhance the transition disclosures in respect of IFRS 16 to ensure the impact of the transition was clear to readers of the financial statements.
- The Board applied the HM Treasury discount rate for all lease liabilities regardless of whether there is an interest rate explicitly referred to within the lease. Transition guidance in this area was contradictory and clarification on this matter was sought through the NHS Technical Advisory Group which determined the rate per the lease should be applied. A judgemental difference of £2.3 million was identified as a result which is included within Appendix F.
- We conclude that management has undertaken sufficient procedures to identify any contracts will would fall under the scope of the standard.
- Common with other boards across Scotland, the Board encountered challenges utilising the system procured to record and calculate IFRS 16 leases with a hybrid approach undertaken between the system and excel to produce financial statement figures. Moving forward, the Board should work with other boards across Scotland to enhance the use of the system and reduce the need for manual intervention.
- Based upon the audit procedures performed, we conclude that right of use assets and associated liabilities have been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapters 7 and 10).

Other Inherent audit risks

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

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. These provisions totalled £411 million (2021/22: £357 million) per the Board's financial statements.

Our audit work focused on the following areas of judgement within these balances and included:

- reviewing 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;
- assessing whether provisions, including CNORIS, are recorded in line with the FReM and the Board's accounting policies, and have been accounted for appropriately; and
- assessing the work performed by the NHS Scotland Central Legal Office ('CLO'), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

Our conclusions

- Audit Scotland undertake an annual review of the work carried out by the CLO to establish the extent to which the information they provide can be used as audit evidence under ISA (500) UK and evaluate the appropriateness of the methodology adopted by the Scottish Government to estimate the national obligation. Their review did not identify any issues in respect of the methodology applied and they concluded that the CLO is objective, has sufficient expertise and the capability, time and resource to deliver reliable information. Our own assessment concurs with this position.
- We are satisfied that the amounts recorded in the Board's financial statements in respect of CNORIS participation and clinical and medical negligence provisions reflect the amounts notified by the CLO. The financial statement disclosures appropriately reflect the estimation uncertainty inherent in such provisions.
- Amendments were made to enhance estimate disclosures surrounding structured settlement payments to reflect the significant estimation and judgements applied to arrive at a provision value.

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.

Our audit work focused on the following areas of judgement within these balances:

- agree the opening balance sheet position to the underlying financial records held by management;
- review the prior year working papers by the departing auditor 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.

Our conclusions

- We identified a number of key judgements and estimates within the prior year financial statements. This includes:
  - Land and Buildings valuation as set out on page 21.
  - PFI/Hub liabilities as set out on page 23.
  - Accruals as set out on page 15.
- We identified a number of adjustments in relation to the prior year which are included within Appendix F.

Valuation of Inventories

The Board held an inventory balance of £27.6 million as at 31 March 2023 (2021/22: £25.2 million). Due to the Covid-19 pandemic, full stock counts were unable to be performed in some areas over the last two financial years and in some instances, prior year information was used. There was therefore a risk that inventories were not accurately valued or that the balance was not complete.

Our audit work focused on the following areas of judgement within these balances including:

- ensuring that the Board has an appropriate programme of year end inventory counts;
- attending a sample of year end inventory counts to ensure that appropriate counts and valuations have occurred; and
- ensuring that stock valuations are appropriately reflected within the financial statements.

Our conclusions

- Our attendance at inventory counts identified a number of control observations and errors in counts. Please refer to Appendix G, recommendation 9.
- Count errors for the sites attended were amended within the count sheets provided to the central finance team. We extrapolated the potential error across the sites which we did not attend resulting in a judgemental difference of £0.53 million.
- No other material issues were noted through our procedures to support the valuation, completeness and existence of inventory.

Existence of moveable plant and equipment

As at 31 March 2023, the Board held plant and equipment of £146.3 million (2021/22: £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.

Our audit work focused on the following areas of judgement within these balances:

- reviewing 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.

Our conclusions

- Our verification work completed was able to confirm the existence of a sample of items of plant and equipment. One item was not in the anticipated location however the Board were able to locate the equipment.
- The Board's IT equipment is capitalised in bulk within the fixed asset register which creates challenges in identifying specific physical assets. A separate IT asset register exists, however the link between accounting records and this register is not clear. As set out in Appendix G, action plan number 10, the Board should ensure that the IT assets in the fixed asset register can be readily traced to the IT asset register and individual tagged assets.
- While engagement from sites could be enhanced, we are satisfied that the central finance team has established procedures to verify the existence of equipment at the balance sheet date.

Going concern

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 the auditing standard, ISA 570, we are required to undertake greater 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 placed 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. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to June 2024.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the Board has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the Board's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the Board projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the FReM.

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Board reports and financial plans. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Group and Board.

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

As set out within our Annual Audit Plan, there has been a significant change to the audit standard, ISA (UK) 315 that impacted our 2022/23 audit approach and the procedures we needed to perform.

The standard drives 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 to our audit approach as a result of the implementation of ISA 315 were:

- 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 ensuring that audit approaches do not show bias to look for corroborative evidence or excluding contradictory evidence.
- We made enhanced inquiries of management and 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.
- We held discussions with the Chair of the Audit and Risk Committee including in respect of the risks of fraud in in the Board and considered the implications for the audit.

Our conclusions

- We identified 20 relevant IT systems and applications which contribute to the production of the Board's financial statements, with the majority of these systems and applications being hosted nationally.
- Our work did not identify any significant weaknesses in the Board's systems of internal control. We did however identify some areas for improvement in relation to user access controls and segregation of duties which management has investigated and where able, implemented amendments or additional controls.

4. Wider Scope Dimensions

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Board's arrangements for the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. For each of the dimensions, we have applied a RAG rating using auditor judgement. The rating represents our assessment on the adequacy of the Board's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension. The rating takes account of both external risks not within the Board's control and internal risks which can be managed by the Board, as well as control and process observations made through our audit work.

- Financial Sustainability: Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- Financial Management: Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- Vision, leadership and governance: Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.
- Use of resources to improve outcomes: Considers how audited bodies 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 against outcomes.

Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. We have considered the best value principles through each wider scope dimension.

Our considerations and audit work in respect of the wider scope dimensions recognise the external factors significantly impacting the Board, including the ongoing recovery from the Covid-19 pandemic, the increasing demand for services and the high inflationary environment. Our areas of audit focus have therefore taken cognisance of the external challenges facing the Board.

Financial Sustainability

Our overall assessment: Red

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, has resulted 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 2023 to the Scottish Government which outlines annual deficits of £71.1 million in 2023/24, £79.8 million in 2024/25 and £54.5 million in 2025/26 resulting in a cumulative deficit of £210 million with £225 million of savings to be achieved across the three year period from 2023-2026. This deficit reduced marginally in April 2023 by a total of £5 million to £205 million following approval of a revised medium term plan. In order for the Board to achieve breakeven a total of £509 million of savings will be required over the next three financial years. Management continue to explore options to deliver savings, however the scale of the challenge is significant and will require collaboration both within the Board and other stakeholders. It will also require the Board to deliver savings on a recurring basis, which has historically been an area of challenge, with only a third of savings in recent years being made on a recurring basis. Our assessment reflects the ongoing challenges facing the Board, the NHS and considers the level of risk and uncertainty outside the Board's control which could impact it's ability to deliver savings.

The context for financial sustainability in the health sector

Scotland's public services are facing unprecedented challenges. In May 2023, the Scottish Fiscal commission published their report on Scotland's Economic and Fiscal Forecasts which showed that forecast spending could exceed funding by 2% (£1 billion) in 2024/25, rising to 4% (£1.9 billion).

The Auditor General for Scotland publishes an annual report on the performance of the NHS in Scotland. The NHS in Scotland 2022 report highlights how the growing financial pressures present a real risk to the investment needed to recover and reform NHS services. The challenges facing the NHS extend beyond finance and cover workforce shortages, pressures on the social care system and the ongoing impact of Covid-19. The Scottish Government needs to be clearer about how long it will take the NHS to recover from the Covid-19 pandemic and to reform services. The government's NHS recovery plan aims to reduce the healthcare backlog and change how services are delivered.

For 2022/23, NHS boards' 2022/23 financial plans set out a significant challenge with only 3 territorial boards' and 7 national boards' projecting breakeven. Total savings of £620.6 million were forecast to be required to break even.

The financial pressures across the public sector means that the Scottish Government has limited room to make changes to budgets moving forward. Faster reform is needed to protect public services in the long term and improve people's lives.

NHS boards have returned to medium-term financial planning and have prepared three-year financial plans covering the period to 2025/26. The Scottish Government has brought back financial support, known as brokerage, for Boards with a financial deficit.

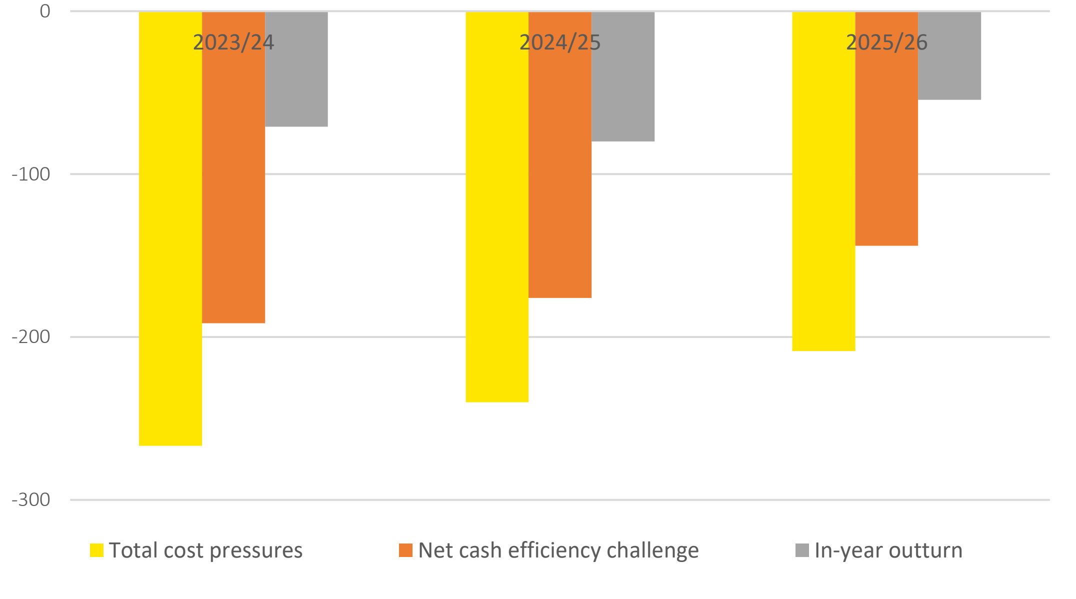
Workforce remains a key priority areas for the sector with the Scottish Government introducing a new National Workforce Strategy for Health and Social Care (2022) to address significant pressures facing the NHS workforce. Use of bank and agency staff increased by 36% in 2021/22 to £321 million from £166.5 million in 2017, a 92.9% increase.

Development of medium term financial plans

The Scottish Government requested that a 3-year financial plan was submitted by all boards in February 2023 with a final version in March 2023. The Board's financial plan, as set out in Exhibit 5, shows a total deficit over the 3-year period of £210 million. Forecast savings over the period are £225 million, representing £75 million per annum. The savings level of £75 million are based on the Scottish Government baseline target of 3% savings per annum.

The total deficit reduced marginally in April 2023 by £5 million to £205 million following Board approval of a revised medium-term plan. In order for the Board to achieve breakeven over the period a total of £509 million of savings will be required.

Exhibit 5: The Board's financial plan sets out the scale of the financial challenge being faced over the next three years.



Source: NHSGGC Three-year financial plan March 2023

The financial plan carries a number of significant assumptions particularly in respect of pay and non-pay inflationary increases:

- Pay: The financial plan takes into account Scottish Government guidance with a 2% uplift assumed each year equating to an uplift of circa £47 million in 2023/24. The Board recognises the uncertainty in respect of ongoing pay negotiations however the assumption is that any pay increases will be fully funded. The plan was prepared before the junior doctors proposed pay award was announced and therefore this will need built into revised financial plans. The offer remains to be finalised however the estimated impact for 2022/23 in respect of the backdated element being £5 million.
- Prescribing: Detailed prescribing cost growth projections for 2023/24 were still being reviewed at the time of drafting the 3-year plan with an updated position reported in April 2023 to the Board as illustrated in Exhibit 6. The significant pressures in this area are clear including due to short supply, inflation and higher volumes. Work needs to continue to reduce this cost pressure as the Board recognises it cannot sustain the level of increase experienced year on year.
- Other supplies: The Board has performed a review of the impact of inflation in 2022/23 with this being used to inform the application of a rate of 5% for 2023/24 reducing to 2% by 2025/26 as illustrated in Exhibit 6 with the inflationary impact in 2023/24 being £59.7 million.

Funding and income increases are not sufficient to address the increasing cost drivers with significant recurring deficits brought forward alongside new cost pressures as set out in Exhibit 6.

Exhibit 6: The Board faces significant cost pressures in future years.

Cost drivers	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Recurring brought forward deficit	(119.7)	(115.9)	(100.4)
Pay cost growth (2% fully funded)	(48.7)	(48.6)	(51.1)
Prescribing – Acute	(20)	(20.5)	(20.6)
Prescribing – Primary Care	(15.7)	(8.2)	(8.2)
Supplies, PPP & other inflation	(59.7)	(40.7)	(22.8)
Unavoidable pressures and investments	(10.9)	(5.5)	(5.0)
Total cost pressures and brought forward deficit	**(273.9)**	**(239.4)**	**(208.1)**

Source: NHSGGC Three-year financial plan April 2023

While the cost pressures set out within the financial plan are significant, there is a risk that costs could increase further and funding reduce. The financial plan highlights a number of risks to delivery including:

- Inflation – there is a risk that inflation will be higher than forecast.
- Pay award – the plan has assumed that the pay award is fully funded however there are concerns over the impact of the 2023/24 award and whether this will be fully funded. The plan is based on a 2% pay uplift which was prior to the agreement of the 2023/24 pay award.
- Pressures – there remains significant pressures associated with areas such as additional beds, winter and unscheduled care.
- Covid 19 – Assumptions within the plan are that the costs of these are fully funded. There is a significant risk around the programme for vaccinations as the funding allocated does not cover the costs of the programme.
- Delayed discharges – delayed discharges continue to have a significant impact at the Board with the number of delays sitting at over 300.
- Legal costs/public inquiry - The QEUH public enquiry and legal proceedings raised by the Board against the main contractors for losses and damages incurred in relation to a number of technical issues will inevitably lead to the Board incurring substantial legal and professional advisor costs over the next two to three years.
- IJB Outturn – there is a risk that the Board may have a liability for any IJB deficits. If there is no direct financial impact, there is likely to be an impact on services due to savings they are required to make.
- Savings – there is a risk that the Board cannot achieve the £75 million recurring savings target.

Given the already identified deficit, requirement to deliver 3% savings and the associated risks of reduced funding and increased costs, the importance of a robust mechanism for delivering recurring savings is critical. Refer to Appendix G, recommendation 11.

Sustainability and Value Group

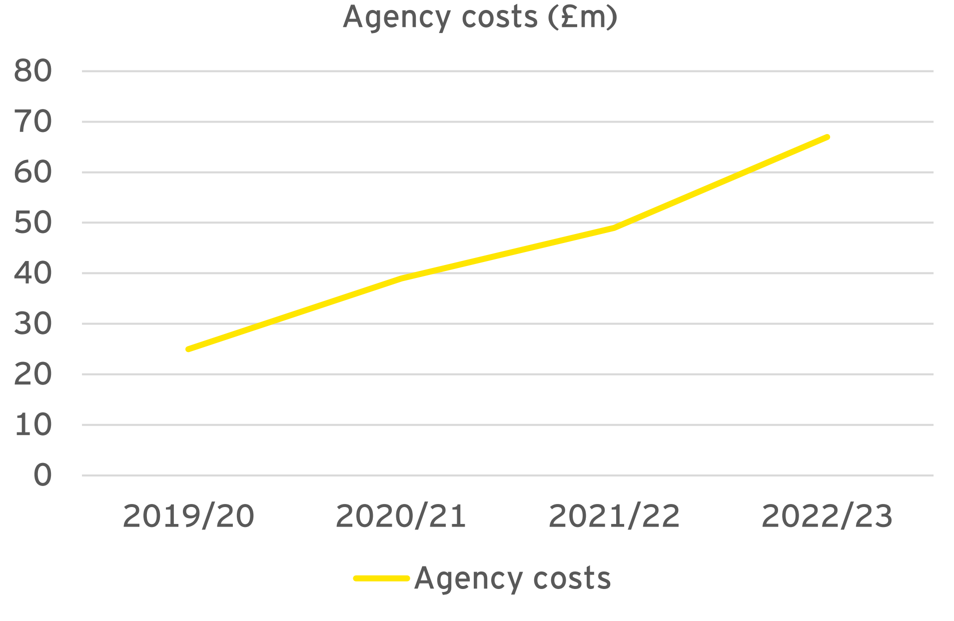
The Board recently transitioned their Financial Improvement Programme to the Sustainability and Value Board ('S&V Board'). The S&V Board has a wider remit than the previous programme and reflects the nationwide approach which acknowledges the requirement for a wider and more holistic approach to sustainable service provision over a prolonged timescale.

The S&V Board invited savings plans in February 2023 with development of confirmed plans in March 2023. The S&V Board will then provide challenge to the plans with regular monitoring of progress throughout the financial year. As at April 2023, the initial plans and trajectory of savings plans were not sufficient to achieve the financial targets for 2023/24 and therefore significant work will be required to ensure delivery of the savings targets both for this financial year and beyond which is recognised by the Board.

The S&V Board additionally performed a self-assessment against the national levels of work and focus, noting no significant gaps in the areas being targeted however opportunities for expansion were noted.

Workforce is a significant feature of savings plan streams, with Audit Scotland's annual overview report highlighting workforce as one of the biggest risks to NHS recovery. Following the pandemic and in line with the national position, the Board's use of agency and bank staff has increased significantly in order to support staffing shortages. There is both a national and local focus on ensuring that a more stable workforce across the NHS is established which in turn should support the reduction of both agency and bank staff.

Exhibit 7: The Board's use of agency staff has significantly increased following the pandemic



Source: NHSGGC Financial Statements

Financial Management

Our overall assessment: Amber

The Board met all financial targets in 2022/23 with an underspend of £0.783 million against their revenue resource limit, following an updated allocation letter issued on 23 June 2023. The financial position throughout the year was challenging and the majority of savings delivered to reach financial balance were done so on a non-recurring basis. The Board continues to review and identify areas to deliver recurring savings to ensure their medium and long-term sustainability.

The Board is by the far the largest health board in Scotland, however the number of qualified accountants is comparable to most other boards. We have noted that there is significant dependency on a small number of key individuals for complex and technical accounting matters. While changes are planned, this should be a key area of focus for the Board alongside ensuring that appropriate succession planning arrangements are in place for key finance roles.

Financial Performance

The Scottish Government has brought back the previous financial reporting regime, with financial support, known as brokerage, returning for boards predicting a financial deficit. All boards have to work within the resource limits and cash requirements set by the Scottish Government. All key financial targets were met by the Board in 2022/23 with the Board delivering an underspend of £0.757 million against its revenue resource limit, following a revised RRL allocation issued on 23 June 2023.

Exhibit 8: Following a revised allocation letter issued on 23 June 2023, the Board met all financial targets in 2022/23

Financial Target	Limit (£'000s)	Actual (£'000s)	Variance (£'000s)
Revised Core revenue resource limit (RRL)	2,944,626	2,943,843	783
Non-core revenue resource limit	109,533	109,533	0
Capital resource limit (CRL)	98,297	98,290	7
Cash requirement	3,530,713	3,530,713	0

Source: NHSGGC Financial Statements

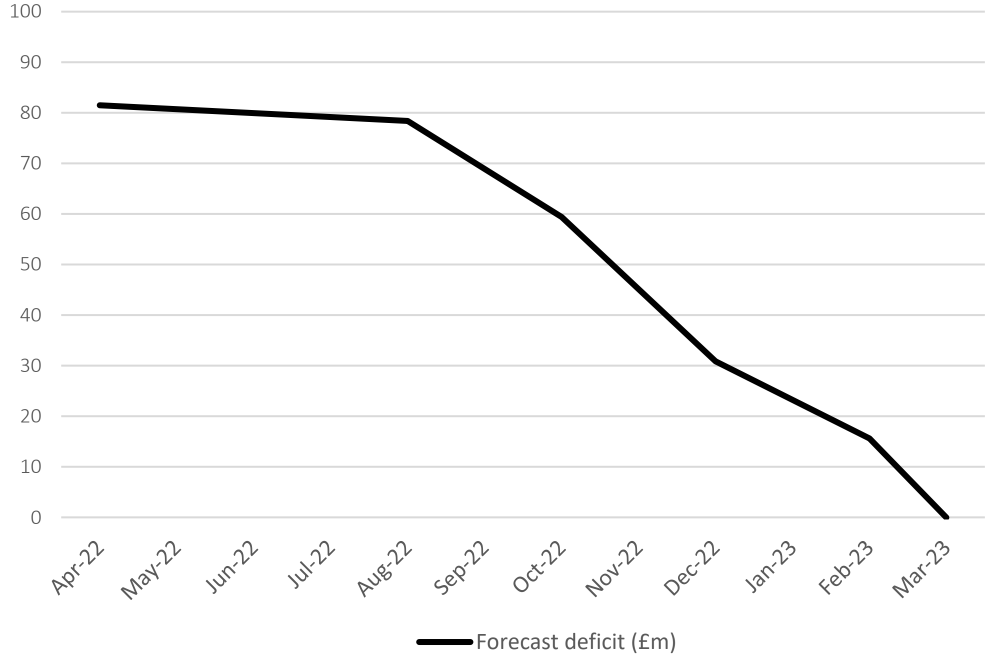
The Board's financial position improved significantly during the year. The overall financial plan for 2022/23 set out an overall financial challenge of £174.5 million. Of this, £54.8 million of savings were delivered on a recurring basis, with £119.7 million on a non-recurring basis. While there was an increase in the level of recurring savings delivered compared to 2021/22, the level of savings delivered on a non-recurring basis was consistent with prior years. The Board's reliance on non-recurring solutions is unsustainable in the medium to long term. Significant savings requirements have now existed for a number of years which means that in order to deliver a higher level of recurring savings, the Board must look to more significant savings programmes, likely involving service redesign which will take time to embed.

Financial monitoring

The Board's financial performance was monitored throughout the year by management and the Finance, Planning and Performance Committee . There is evidence of financial monitoring, reporting and planning by the Board and Finance, Planning and Performance Committee through the financial year, up to the approval of the 2023/24 budget and the medium-term financial plan.

Throughout 2022/23 management reported budget pressures and variances through its management accounts. These were significant in the year with the Board achieving a small underspend against the original forecast deficit (post achievement of savings) of £81.5 million. Exhibit 9 illustrates the forecast deficit as reported to Finance, Planning and Performance Committee.

Exhibit 9: The Board's forecast deficit decreased significantly during the year



Source: NHSGGC Financial monitoring reports to Finance, Planning and Performance Committee

Capital programme

The Board achieved an underspend of £0.007million against their capital resource limit of £98.297 million, this included a £3.3 million transfer from capital to revenue to ensure appropriate allocation of capital spend between revenue and capital. Total infrastructure investment for 2022/23 was £102.5 million including continuing works on Glasgow North East Health Centre (Parkhead) of £19.2 million and medical equipment of £21.3 million.

The Board is developing an Infrastructure Investment Strategy which will link with the vision set out in the Moving Forward Together Strategy and will operate alongside both the Clinical Service Plan and Estate Plan. Pressures exist on capital budgets across the public sector with rising inflation resulting in less funds being available. A comprehensive strategy should enable the Board to determine the best use of the capital funds available.

Financial skills and capacity

The Board's finance team is experienced in NHS finance, however we noted that there is dependency on a small number of key individuals for the more complex and technical accounting matters. The team has experienced turnover in recent years, including at a senior level which presents an opportunity for the Board to strengthen both the skills and capacity within the team. Management are underway with plans to strengthen the team, both through recruitment and training. A key focus for the team should be ensuring that appropriate succession planning is in place for key roles within the team as set out in Appendix G, recommendation 12.

Counter fraud arrangements

There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. The Board is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. The Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

The Board has a formal partnership with NHS Scotland Counter Fraud Services ('CFS'). These arrangements include the Fraud Liaison Officer circulating reports to the Audit and Risk Committee and appropriate managers. Reports from CFS highlight any referrals from the Board and are presented quarterly to the meetings of the Audit and Risk Committee, with an annual report presented each June.

The National Fraud Initiative is a bi-annual counter fraud exercise across the UK public sector which aims to support public sector bodies in preventing and detecting fraud. We carried out a review of the Board's participation in the current NFI exercise and concluded that the Board is appropriately engaged. The approach to investigating matches is well understood and the number of matches investigated as part of the exercise appears reasonable. Participation in NFI is also reported to the Audit and Risk Committee.

System of internal control

Within the Annual Governance Statement, the Board has concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no exceptions or issues identified. Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an initial assessment of the financial control environment as part of our planning work in February 2023, and updated our understanding as part of the yearend audit. Following the revisions to the ISA (UK) 315, there were revisions to our audit methodology including a greater focus on the Board's use of IT in the system of internal control.

Our work did not identify any significant weaknesses in the Board's systems of internal control. We did however identify some areas for improvement across user access controls, segregation of duties and inventory controls. Refer to Appendix G, recommendation 9.

Vision, leadership and governance

Our overall assessment: Green

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 have been demonstrated by the Board during the year.

The Board has experienced significant turnover in key roles within the Executive Management team and the Chair of the Board will also complete his appointment in November 2023. The Board should continue to ensure there are appropriate transition arrangements for key senior roles.

The Board continues to highlight cyber threats as a key risk area and continues to seek support from external experts to ensure there is an appropriate control environment to mitigate the risk.

The Board continues to assess, and where appropriate, update the arrangements it has in place to respond to the Scottish Public Hospitals Inquiry, the ongoing police investigation and the legal proceedings against the parties responsible for delivering the QEUH/RHC construction project. However, the challenges are significant, and are placing additional pressures on senior management that need to be balanced with other priorities.

Annual Governance Statement

The Board has demonstrated through the year that it has the key requirements for good governance. The key aspects of governance arrangements require to be disclosed in the Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the Scottish Public Finance Manual and our understanding of the Board up to 31 March 2023.

We were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Scottish Public Finance Manual.

Governance arrangements

Like all other public bodies in Scotland, the Board moved to revised governance arrangements at the beginning of the UK lockdown period. The full committee timetable resumed from March 2021. Board and Committee meetings have continued to operate in a hybrid structure through 2022/23. We are satisfied that there is an appropriate level of challenge and scrutiny at meetings throughout the year.

During 2022/23, there has been a number of changes within the executive management team including a new Nurse Director, Director of Public Health and Director of Finance. This means that there has been turnover within 60% of the executive member roles however we are satisfied that there has been appropriate transitional arrangements.

The Chair of the Board's term of appointment concludes in November 2023, having served as Chair since December 2015. The loss of an experienced Chair with significant knowledge of the Board will be significant and therefore it is important that the Board has appropriate transition arrangements established.

Internal audit

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit and Risk Committee. For 2022/23, the internal auditor's opinion notes that, 'NHSGGC has a framework of governance and internal control that provides reasonable assurance regarding the effective and efficient achievement of objectives.'

Only reports with a higher risk gradings are currently presented to the Audit and Risk Committee. While we understand the need to ensure that Board committees have sufficient time to focus on higher risk areas, best practice would be for the Audit and Risk Committee to receive all reports, regardless of grading, to enable them to have the opportunity to effectively scrutinise and challenge all internal audit reports. Refer to Appendix G, recommendation 13.

Cyber security

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.

Cyber threats feature on the Board's corporate risk register and mitigating actions to address this risk are reviewed on a regular basis by the Audit and Risk Committee. We are satisfied that this continues to be an area of focus for the Board and there is evidence of the Board seeking external assurance of controls in place through internal audits, Network and Information System audits, discussions with National Cyber security teams and external penetration testing companies. The Board continue to identify and implement areas through these reviews and a review of the cyber incident response plan is underway.

Blueprint for Good Governance

The second edition of NHS Scotland's Blueprint for Good Governance was published in December 2022. The Board has been working to implement the framework and the active governance programme over the past two years. A short-life working group has been established to take forward the design of assurance information flows at Board level.

Regular updates on the active governance framework are presented to the Board. We are satisfied that the Board has appropriate arrangements in place to implement the Blueprint for Good Governance and will continue to monitor implementation during 2023/24.

QEUH/RHC

We identified matters in respect of the QEUH and RHC to be an area of wider scope focus. Our procedures in this area were limited to:

- Considering the progress of the Inquiry, including update reporting to the Board
- Assessing the impact of the inquiry on management and the Board's capacity; and
- Considering the potential accounting implications of any developments and the appropriateness of financial statement disclosures.

Scottish Hospitals Public Inquiry

in August 2020, the Scottish Hospitals Inquiry ('the Inquiry') into the construction of the Queen Elizabeth University Hospital ('QEUH') campus, including the Royal Hospital for Children('RHC'), and the Royal Hospital for Children and Young People in Edinburgh was launched. A Project Management Office ('PMO') was established by the Board in 2019 to manage the external review in relation to the QEUH and RHC. The PMO is responsible for managing the inquiry requirements in terms of administration and document flow and assessment.

The PMO'S resources increased during 2020/21, with a single team created to manage both the Inquiry and legal claims. An Executive Oversight Group was established to ensure effective and transparent decision making which meets weekly to support decision making.

The workload arising from information requests to support the Inquiry is significant. This includes both document requests and specific questions that require a written response. An executive working group has been established to ensure effective coordination of all responses. This group reports to the Executive Oversight Group.

A procedural hearing took place on 20 March 2023 with evidential hearings scheduled from 12 – 23 June 2023 in relation to the QEUH Campus.

Both the Board and Finance, Planning and Performance Committee have received regular updates on all matters associated with the QEUH, including the Inquiry throughout 2022/23.

QEUH Legal Proceedings

In December 2019, the Board initiated court proceedings against the parties responsible for delivering QEUH/RHC construction project and engaged solicitors (MacRoberts LLP) to act on its behalf. Legal proceedings have been initiated for losses and damages incurred in relation to a number of technical issues identified within both the QEUH and RHC. These include issues with the water and ventilation systems, plant and building services capacity, glazing, doors, the heating system, the atrium roof, internal fabric moisture ingress and the pneumatic transport systems.

The contractors challenged the court action against them however the legal debate was heard and found in favour of the Board. In addition, permission to appeal was put forward by the contractors but it was subsequently refused. The Court sisted the action to allow the claims to be adjudicated and preparation for this continues. The Board has also lodged additional claims in relations to issues with the chilled water system and internal cladding.

In September 2021, Police Scotland announced an investigation into four deaths at the QEUH campus. A single point of contact has been set up through which requests for staff access and interviews are made. Guidance and witness support has been made available for staff. The investigation remains ongoing at the time of preparing this report.

In addition, the Board has received 30 intimations of claim in respect of QEUH and RHC which have been considered through our work set out on page 26. The Board continues to work closely with the CLO on the related themes, however all claims are currently sisted.

There remains significant uncertainty over the outcome of both existing claims for and against the Board and potential future legal proceedings. The overall cost to the Board is therefore unknown. A contingent liability has been disclosed within the financial statements to recognise the possible obligations which may arise throughout the processes.

Use of resources to improve outcomes

Our overall assessment: Red

The Board considered regular performance updates against the Annual Delivery Plan measures throughout the year. Performance has improved against the Board's KPIs during 2022/23, with 66% of targets being met compared to 48% in 2021/22. However, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to the 15 targets reported against in 2022/23. While the overall trajectory shows improvement, there are 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.

NHS Scotland has set ambitious climate change targets with the target to be net zero by 2040. The Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. A Sustainability Strategy is due to be endorsed by the Board in August 2023. The establishment of this strategy will provide the Board with a mechanism to set a clear pathway to achieving the NHS Scotland target.

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.

The NHS in Scotland 2022 report highlights the difficulty in accurately measuring the progress of the Scottish Government's NHS Recovery Plan. The document does not contain detailed actions that allow overall progress to be accurately measured. The challenges facing the NHS in Scotland are unprecedented and this means that the Scottish Government will have to make difficult choices and prioritise which ambitions it can deliver against. The report highlights the need for transparency or what progress is or is not being achieved.

Moving forward together

Moving Forward Together ('MFT') is the Board's key strategic document which, in tandem with the annual delivery plan, describes the vision for clinical services and supports the delivery of the Board's corporate aims.

The plan was originally approved by the Board in 2018 however the plan required a further review following the Covid-19 pandemic to ensure it remained reflective of the current operating environment and remobilisation and recovery targets.

The plan is ambitious and will require significant transformation within the Board. In order to deliver a financially sustainable NHS service, significant transformation is required, however the Board's ability to deliver such transformation continues to be impacted by:

- Financial pressures;
- Workforce shortages;
- Pressures on the social care system; and
- The ongoing impact of the Covid-19 pandemic.

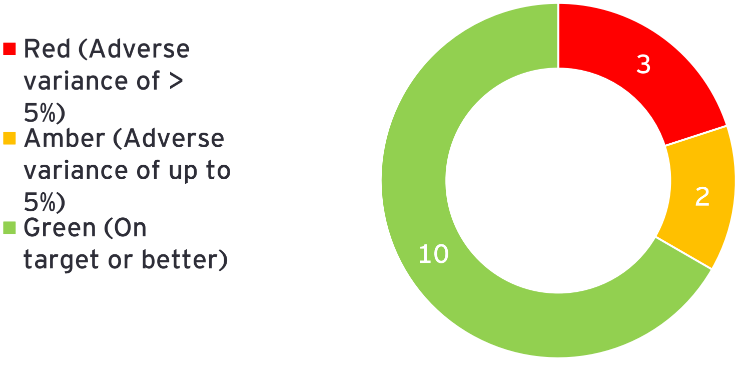
The planning landscape for the NHS is complex due to the interdependencies with national Scottish Government priorities and other stakeholders such as the Health and Social care partnerships and local authorities. The Board needs to continue to strengthen partnership working in order to deliver the corporate aims set out within MFT.

Performance reporting

Performance updates have been considered throughout the year at both Board and relevant committees. Performance reports are available to the public through publication on the Board's website.

Reports provide a summary of performance against key performance indicators outlined in the Performance Assurance Framework and based on the measures contained within the 2022-23 annual delivery plan alongside the planned care measures and key local and national performance measures. We are satisfied that Board performance reports are sufficiently detailed to enable members and the public to understand and challenge the Board's performance. Performance against the annual delivery plan targets is also set out within the 2022/23 annual report and accounts as illustrated in exhibit 10.

Exhibit 10: Board performance against annual delivery plan targets shows that 66% of targets were met.



Source: NHSGGC Financial Statements 2022/23

While this indicates a positive improvement in performance compared to 2021/22 where less than 50% of targets were met, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to the 15 targets reported against in 2022/23.

Performance in some areas continue to experience significant challenges and these should be the primary focus for the Board:

- **Access to cancer services** – the Board reported a provisional position for the quarter ending March 2023 that 59.1% of cancer patients started their first cancer treatment within 62 days of urgent referral with a suspicion of cancer against a target of 80% (2021/22: 72.4%). Performance in this area shows both underperformance against target and a significant deterioration in performance in comparison to the prior year. The Board has been impacted by a sustained increase in referrals. Public Health Scotland reported in March 2023 that new cancer diagnoses increased by 5.5% in 2021 compared to 2019. This continues to be a key area of focus for the Board with waiting list initiative activities underway and outsourcing taking place. Longer term solutions to increase capacity will be required.
- **Accident and Emergency 4 hour Waiting times Standard -** the Board reported a 12 month average of 70.5% of patients were treated in line with the 4 hour waiting times standard against a target of 95% (2021/22: 71.7%). This demonstrates a significant shortfall in performance against target with a minor decline in comparison to prior year performance. The performance in accident and emergency stems from both increased demand for services and challenges with patient flow, including those caused by delayed discharges. A number of initiatives are underway to improve performance including the 'Right care, right place' campaign, continuous flow model implementation and strengthening staffing during peak periods.
- **Delayed discharges –** the Board reported that the number of delayed discharges was at 364 based on the monthly average against a target of 287 (2021/22: 299). The number of delayed discharges has increased significantly in recent years from approximately 100 patients in 2019 to over 300 currently. The Board continues to work with partners including the Health and Social Care partnerships and local authorities to improve this position. The Board established the 'Discharge without Delay' programme to ensure patients are discharged to a suitable and homely setting at the earliest opportunity.

Climate change

Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets in place including a 75% reduction in greenhouse gas emissions by 2030. NHS Scotland is however aiming to become a net zero health organisation by 2040 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.

While sustainability has often existed as a separate workstream in many organisations, the Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. These include specific measurable short-term targets which will enable the Board to assess progress against their climate and sustainability ambitions.

The Board's Sustainability Strategy is currently going through governance approvals and is expected to be endorsed by the Board in August 2023. The establishment of this Strategy will provide the Board with a clear pathway to achieving the ultimate goal of achieving net zero heat GHG emissions by 2038 and an overall position of net zero emissions by 2040. An important part of the embedding of this Strategy will be to ensure there are clear annual targets in place to achieve these ambitions and ensuring that there are sufficient resources for the Board to do so.

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 – Adjusted and unadjusted audit differences

G – Action Plan

H – 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.

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.

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	Annual Audit Plan – March 2023
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.	Annual Audit Plan – March 2023
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	This Annual Audit Report

		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.	This Annual Audit Report
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.	This Annual Audit Report
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.	This Annual Audit Report
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report

Required communications	What is reported?	When and where
		Our Reporting to you
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.	This Annual Audit Report
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.	Annual Audit Plan – March 2023 This Annual Audit Report
External confirmations	▶ Management's refusal for us to request confirmations. ▶ Inability to obtain relevant and reliable audit evidence from other procedures.	This Annual Audit Report
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report

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.	This Annual Audit Report
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.	This Annual Audit Report
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.	This Annual Audit Report
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.	This Annual Audit Report

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

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	
Agreed additional audit procedures (see below)	£150,000	
Audit Scotland fixed charges:		
Pooled costs	£35,490	
Audit support costs	£15,340	
Sectoral cap adjustment	£63,260	
Total fee	£656,310	£415,810

As we outlined in our audit planning report, 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 with 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.

Through the course of our yearend audit procedures we identified material areas of additional scope of work required to conclude our audit in line with auditing standards. We shared an assessment of the additional time and costs with management, and have notified Audit Scotland of the variation, which will be subject to Audit Scotland approval following finalisation with management. At the conclusion of the audit the variation outlined in the above table was agreed. In respect of payroll, the activity shortfall accrual, and QEUH, these are areas where work continued up to the date of approval of the financial statements and therefore are subject to discussion with management regarding the final fee position.

The fee variation amount is driven by the staff mix required in the areas of work noted, recognising that some areas require more senior or expert time compared to other more transactional work which may be completed by more junior team members. All time related to areas of additional work is charged in line with the day rates provided by Audit Scotland.

This appendix sets out the significant adjustments, processed as part of finalisation of the financial statements. This includes 50 adjustments in relation to 2022/23: 18 adjusted differences and 32 unadjusted differences. A further 14 unadjusted errors were noted in respect of 2021/22 and 1 adjusted difference.

Adjusted differences – 2022/23			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	Duplicate accrual	CR Expenditure (£1,869)	DR Accruals £1,869
2	Annual leave accrual classification		DR Accruals £1,392 CR Annual leave accrual (£1,392)
3	NHS Income reclassification	DR Income from private patients £267 CR NHS Scotland bodies income (£113) CR Other NHS bodies income (£154)	
4	Prepayments classification		DR Accrued Income £6,070 CR Prepayments (£6,070)
5	Resource transfer classification	DR Resource transfer expenditure £1,907 CR Other operating income (£1,907)	
6	Integral Software and Hardware asset adjustment		DR Plant and Machinery Cost £3,961 DR IT Accumulated Depreciation £566 CR Information Technology -(£3,961) CR Plant and Machinery – Accumulated depreciation (£566)

Adjusted differences - 2022/23			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
7	2023 additions in AUC		DR Additions £2,660 CR AUC (£2,660)
8	2023 additions in AUC (Extrapolated)		DR Additions £1,640 CR AUC (£1,640)
9	Hospices correction	DR Other Income £6,899 CR Staff Costs (£6,899)	
10	IFRS 16 liability - long and short term split		DR Long-term payables £3,331 CR Short-term payables (£3,331)
11	Inventory count adjustment	DR Expenditure £527	CR Inventory (£527)
12	SLA IFRS 15 Revenue adjustment and activity accrual removal	CR Income (£11,310) CR Expenditure (£5,413)	DR Contract Liability (£11,310) DR Accruals £5,413
13	Double accounting of IVF Costs	CR Expenditure (£719)	DR Accruals £719
14	SCS Eating Disorders contractual commitments accrual reversal	CR Expenditure (£643)	DR Accruals £643
15	Strategic Fund to integrated accrual reversal	CR Expenditure (£500)	DR Accruals £500
16	Vaccinations accrual	CR Expenditure (£6,180)	DR Accruals £6,180

Adjusted differences - 2022/23			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
17	Income reclassification	DR Other income £8,716 CR Staff Costs (£7,306) CR Other expenditure (£1,410)	
18	Study leave accrual reclassification	DR Staff Costs £8,191 CR Other Expenditure (£8,191)	
Total		(£26,107)	£26,107

Unadjusted differences - 2022/23			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	Prior year equipment		DR Plant and Machinery £1,969 CR Additions (£1,969)
2	FHS accrual	CR Expenditure (£709)	DR FHS Accrual £709
3	Depreciation Overstatement	CR Depreciation (£300)	DR Accumulated Depreciation £300
4	FHS Debtor reclassification (Judgemental)		DR FHS Accrual £6,667 CR FHS Debtor (£6,667)
5	Prior year IT equipment		DR Technology Cost - £1,939 CR Additions (£1,939)
6	Prior year enhancements		DR PPE Buildings £925 CR Additions Buildings (£925)
7	Building enhancements 2023/24 (extrapolated)		DR Assets Under Construction £6,569 CR Additions - Buildings (£6,569)
8	Assets under construction accrual variance		DR Accruals £374 CR AUC (£374)
9	2023 additions in AUC (Extrapolated)		DR Additions £1,640 CR AUC (£1,640)

Unadjusted differences - 2022/23			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
10	Post balance sheet provision update	DR Expenditure £1,127 CR Income (£227)	DR Debtors £227 CR Provisions (£1,127)
11	Staff accrual update	CR Expenditure (£901)	DR Accruals £901
12	IFRS 16 discount rate (Judgemental difference)		DR ROU Assets £2,274 CR Lease liability (£2,274)
13	PFI/Hub liability adjustment	CR Operating expenditure (£1,041)	DR PFI/Hub Liability £1,041
14	NHS Income adjustment	DR Other Income £12,137 CR NHS Scotland Income (£12,000) CR NHS Non-Scotland income (£137)	
15	Apprenticeship levy reclassification	DR Staff Costs £8,395 CR Other operating expenditure (£8,395)	
16	Overseas Income	DR Income £279	CR Debtors (£279)

Unadjusted differences – 2022/23				
No.	**Description**	**Income and Expenditure Impact / £000's**	**OCI impact/ £000's**	**Balance Sheet Impact / £000's**
17	Other operating Income M12 Exclusions	DR Income £361		CR Accrued Income £361
18	Holiday pay accrual calculation difference	CR Staff costs (£942)		DR Accruals £942
19	Double counting of QEUH Land		DR OCI – Revaluation gains and losses £500	CR Land (£500)
20	EUV double counting of land		DR Revaluation gains and losses £2,777	CR Buildings (£2,777)
21	Land and building apportionment for health centre (judgemental)			DR Buildings £1,752 CR Land (£1,752)
22	Land and building apportionment for health centres (extrapolated)			DR Building £2,698 CR Land (£2,698)
23	Ehealth over accrual	CR Expenditure (£2,375)		DR Accruals (£2,375)
24	Capital accruals	CR Expenditure (£745)		DR Accruals (£745)

Unadjusted differences – 2022/23				
No.	**Description**	**Income and Expenditure Impact / £000's**	**OCI impact/ £000's**	**Balance Sheet Impact / £000's**
25	Overstatement of prepayments	DR Expenditure £266		CR Prepayments (£266)
26	Accruals adjustments			DR Accruals (£11,688) CR Deferred Income (£11,688)
27	Accruals Omissions	DR Expenditure £1,900		CR Accruals (£1,900)
28	South Agency accrual	DR Expenditure £259		CR Accruals (£259)
29	SLA Activity revenue adjustment (judgemental)	DR Income (£5,032)		CR Contract liability (£5,032)
30	Junior doctors pay settlement	DR Expenditure £5,000		CR Accruals (£5,000)
31	Omission of accruals	DR Expenditure £1,380		CR Accruals (£1,380)
32	Provision in respect of legal matter	DR Expenditure £400		CR Provisions (£400)
33	Overstatement of office space		Dr Revaluation reserve £363	Cr Buildings (£363)
Total		(£2,580)	£3,640	(£1,060)

Unadjusted differences – 2021/22			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	Equipment capitalisation		DR Additions £1,969 CR Assets under construction £1,969
2	FHS Accrual	CR Expenditure (£2,267)	DR FHS Accrual £2,267
3	IT equipment capitalisation		DR Technology Cost - £1,939 CR Assets under construction – (£1,939)
4	Buildings capitalisation (extrapolated)		DR Additions – Buildings £729 CR AUC (£729)
5	Building Enhancements		DR Additions Buildings £925 CR AUC (£925)
6	Double counting of IVF Costs	CR Expenditure (£723)	DR Accruals £723
7	Misclassification of Holiday pay balances		DR Accruals £14,985 CR Holiday pay Accrual (£14,985)
8	PFI/Hub liability adjustment (including brought forward differences)	CR Expenditure (£13,328)	DR PFI (£13,328)
9	Removal of hospices income and staff costs	DR Income £6,154 CR Expenditure (£6,154)	

Unadjusted differences - 2021/22			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
10	NHS Income adjustment (Judgemental)	DR Other Income £9,520 CR NHS Scotland Income (£9,260) CR NHS Non-Scotland Income (£260)	
11	Apprenticeship levy reclassification	DR Staff costs £7,447 CR Other Operating Expenditure (£7,447)	
12	Study leave accrual reclassification	DR Staff costs £7,041 CR Other operating expenditure (£7,041)	
13	Overseas Income	CR Overseas Income (£279)	DR Accrued income £279
14	SLA Activity revenue adjustment (judgemental - 2020/21 and 2021/22 impact)	DR Income £8,655	CR Contract Liability (£8,655)
Total		£7,663	£7,663

Adjusted differences – 2021/22			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	SLA IFRS 15 Revenue adjustment and activity accrual removal	DR Income £62,552 CR Expenditure (£98,082)	DR Accruals £98,082 CR Contract Liability (£62,552)
Total		(£35,530)	£35,530

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Board or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	**Financial Statement narrative** The performance and accountability report within the annual report and accounts provides the Board with an opportunity to set out their strategic objectives, performance and governance processes. While improvements have been made to streamline this narrative, there remains areas for improvement to ensure the understandability of the narrative.	Management should continue to review the narrative sections within the annual report and accounts and identify areas where this could be streamlined and simplified to aid the understandability for the reader. Grade 2	**Response:** Agreed. The management commentary was updated and amended in line with EY recommendations in the year. Its content is always reviewed against the annual accounting manual on an ongoing basis and opportunities to improve the narrative disclosures considered. **Responsible officer:** Asst Director of Finance – FS, C, & PS **Implementation date:** May 2024
2	**Accounting assessments** The Board did not have in place accounting papers for material amounts within their financial statements which carry significant judgement and estimation. Having such papers ensures that judgements are clearly articulated and that knowledge can be easily transferred within the Board.	Management should perform a review of ensure that for any material amounts which carry significant judgement or estimation, that an accounting paper is in place supporting management's view. Grade 1	**Response:** Agreed. In the event the Board was doing something which involved an element of significant justification and estimate an accounting paper will be produced. **Responsible officer:** Director of Finance **Implementation date:** May 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
3	**Contract Management** The Service Level Agreements in place with other NHS Scotland bodies did not clearly articulate the performance obligations and were not amended to reflect the changes arising as a result of the Covid-19 pandemic. This resulted in challenges in assessing the accounting treatment both due to the lack of clarity in terms and the lack of written amendment.	Management should perform a review of contracts in place to ensure the performance obligations within are clearly articulated. Where changes are made to contracts, formal contract amendments should be made. Grade 2	**Response**: Agreed. The SLA's were not amended during the height of the pandemic due to the pressures of work at that time, instead an amendment was agreed nationally with Scottish Government and all Health Boards to ensure no Board was at financial detriment due to the challenges of delivering core activity during the pandemic. Going forward SLA's are in the process of being reviewed and updated and the new SLAs will include additional clarification around performance obligations. **Responsible officer:** Director of Finance **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
4	**Financial Statement classifications** Our procedures across a number of financial statement disclosures and accounts identified misclassifications. These arose partially due to terminology misinterpretations and partially due to a lack of understanding of the chart of accounts and how those impact financial statement categories.	Management should ensure that a review is performed to ensure that financial statement transactions and balances are correctly classified within the financial statements. This should include training where appropriate and a review of the use of general ledger account codes. Grade 2	**Response**: Agreed. The core team will be up to full establishment from 2023/24 and will allow for additional reviews in year and at the yearend. Additional training will be delivered for key finance staff during the year and clarification will be sought through TAG as appropriate. **Responsible officer:** Assistant Directors of Finance **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
5	**Journal processing** The majority of journals processed by the Board are processed by the book-keeping team. This means that we have been unable to fully utilise our data analytics tool to understand patterns of posting and has led to inefficiencies in sample testing as it is difficult to identify the true journal preparer. Within the Board, it also creates inefficiencies when individuals wish to query postings as this can not readily be obtained from the system.	Management should review the current processes in respect of journal postings and whether the book-keeping team should retain control of journal processing. Grade 3	**Response**: Agreed. A review of this will be carried out to establish whether it is possible to better align journal postings to the person/team raising the journal. **Responsible officer:** Assistant Directors of Finance **Implementation date:** 31 March 2024
6	**Valuation of PPE** The Board's valuer adopts a beacon approach specifically designed by the District Valuer. Management should ensure that they document their review and challenge of the valuations provided by the district valuer.	The Board should ensure that evidence is available to demonstrate their review and challenge of the valuations provided by the district valuer. Grade 2	**Response**: Agreed. The Board already reviews and challenges valuations as required however formal recording of this process will be tightened up." **Responsible officer:** Head of Financial Services **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
7	**Timing of additions** The Fixed Asset Manager is reliant on relevant individuals within the Board advising of when items should be capitalised. The Board has been reviewing processes to ensure items are capitalised at the correct date. As set out in Appendix F, we identified adjustments in this area and therefore, this should continue to be an area of focus.	Management should continue to review the capitalisation process to ensure that assets are capitalised from the correct date. Grade 3	**Response:** Agreed. As the report says there has been work done already around this. Now the team is up to full establishment additional reviews will be undertaken to ensure that assets are capitalised from the correct date **Responsible officer:** Head of Financial Services **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
8	**PFI/Hub Contracts** The Board holds 16 PFI/Hub contracts which are of varying ages. The Board did not store all the relevant supporting information in a single location which resulted in some challenges obtaining the correct models and contracts. One of the PFI contracts is scheduled to end in 2025 and therefore the Board should ensure that appropriate arrangements are in place for the contract conclusion.	Management should ensure that a central location is used to store all PFI/Hub related information. Management should ensure that appropriate arrangements for the conclusion of the PFI contract expiring in 2025 are in place. Grade 2	**Response:** Agreed. The majority of the files were already held in a central location. During the audit it was confirmed that there were some gaps which were resolved and the central files have been updated accordingly. In respect of the contract expiring in 2025 a group has been set up to oversee effective management of the process and minimise potential risk to the Board. **Responsible officer:** Head of Capital Finance **Implementation date:** May 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
9	**Inventory controls** Our procedures in respect of inventory identified a number of errors and control weaknesses in process in respect of inventory counts.	Management should perform a review of controls for inventory counts. Given the volume of counts being performed, management should consider implementing spot checks by central finance to ensure instructions are being followed. Grade 2	**Response:** Agreed. Spot checks will be restarted in 2023/24. **Responsible officer:** Head of Financial Services **Implementation date:** 31 March 2024
10	**IT Asset Register** IT assets are often bulk uploaded to finance's fixed asset register which means that it is difficult to identify any individual assets. The IT team have a separate register but the links between the two systems are unclear.	Management should review how finance and IT asset registers can be aligned to ensure that IT assets can be readily traced. Grade 3	**Response:** Agreed. Management will review the current arrangement with a view to tightening arrangements. **Responsible officer:** Head of Financial Services **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
11	**Medium-term financial plan** The Board's medium term financial plan sets out significant deficits after delivery of significant savings. While the Board continue to review and identify savings opportunities, it is important that the Board has a sustainable savings delivery plan over the term of the medium term plan.	The Board should develop and implement detailed savings plans over the medium term which are aligned to the Moving Forward Together programme. The savings plans should clearly articulate how savings will be achieved over the next 3 years and beyond. Grade 1	**Response:** Agreed. The Board already has a key area of focus on savings through the S&V programme Board and relevant sub-groups and as reported to FP&P and Board. **Responsible officer:** Director of Finance **Implementation date:** Ongoing
12	**Finance team skills and capacity** The finance team has dependency on a number of key individuals for the more complex and technical areas of accounting. Challenges have been encountered in areas such as IFRS 16 implementation and the remuneration report. This key person dependency also creates risks around succession plans and how corporate knowledge is shared.	Management are undertaking a review of the finance team and identifying areas for improvement. This should include an assessment of the skills of the team (including the number of qualified accountants) and the succession plans in place for key roles. As part of the financial statement preparation, management should assess the roles key individuals perform to ensure that key person dependency risk is shared. Grade 1	**Response:** Agreed. A couple of key senior finance posts were vacant during the year. These are now filled and the department succession plans will be updated accordingly. **Responsible officer:** Assistant Directors of Finance **Implementation date:** 31 March 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
13	**Internal audit reporting** We consider that best practice is for all internal audit reports to be presented to Audit and Risk Committees rather than just reports with significant findings.	Management, in conjunction with the Chair of the Audit and Risk Committee, should review the current reporting protocols for internal audit reports to ensure sufficient detail is provided to the committee on reports with limited findings. Grade 2	**Response**: Agreed. Current reporting protocols will be reviewed and any changes agreed with the Chair of ARC will be implemented. **Responsible officer:** Director of Finance **Implementation date:** 31 March 2024
14	**Accruals review** Our procedures in respect of accruals identified a number of adjustments, including calculation differences, accruals relating to future expenditure and double counted accruals as set out in Appendix F.	Management should ensure that a review of the adjustments identified by audit is performed and that further quality assurance checks are implemented to identify errors in advance of the audit. Where necessary further training should be provided. Grade 2	Agreed. A review will be carried out carried out as part of the yearend checks and training is already being scheduled. **Responsible officer:** Assistant Director of Finance – Planning and Performance **Implementation date:** 13 May 2024

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
15	Remuneration report The remuneration report was provided to audit on 15 May, 6 days after the start of the audit fieldwork. For 2022-23, the report contained a number of complexities due to the turnover in the executive team. Following audit review, it became apparent that the necessary information from SPPA had not been obtained and this led to delays in completing the review and a potential qualification in respect of the remuneration report.	Management should ensure that an individual is allocated to the remuneration report who has sufficient time to prepare the report to a high quality and ensure that all information from third parties is obtained in a timely manner. A thorough quality review should also be performed against the guidance prior to issue to audit. Grade 2	Agreed. The remuneration report and associated guidance will be independently reviewed by a senior officer within Financial Services as part of the yearend checks. This did not occur this year due to key vacancy in the team which has now been filled. **Responsible officer:** Head of Financial Services **Implementation date:** 13 May 2024

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.

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