

NHS Grampian External Audit Plan

**Year ending
31 March 2023**

20 March 2023



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of NHS Grampian for those charged with governance.

We are appointed by the Auditor General as the external auditors of NHS Grampian for the five year period 2022/23 to 2026/27.

Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the NHS Grampian are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on NHS Grampian's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee). Our audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on an understanding of NHS Grampian and is risk based.



Plan overview

The audit plan sets out our risk based audit approach for NHS Grampian. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit and Risk Committee on behalf of the Board) and will be shared with Audit Scotland.

01 Materiality

We have determined our planning materiality using prior year gross expenditure less IJB contributions as per audited 2021/22 financial statements as our benchmark, resulting in the following:

- £20.770 million Group planning materiality (£20.765 million NHS Grampian only).
- Performance materiality of £12.461 million (£12.459 million NHS Grampian only) is based on 60% of planning materiality.
- Trivial materiality is capped at £250,000.
- A lower materiality of £25,000 will be used on our audit of the Remuneration and Staff Report.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in income recognition – Other income (occurrence) (ISA (UK) 240);
- Risk of fraud in expenditure recognition – non payroll expenditure (cut-off) (PN10); and
- Valuation of land and buildings (valuation).

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

03 Wider Scope Audit

In accordance with the Code, our planning considers the wider scope areas of audit.

We have identified the following wider scope significant risk in relation to:

- Financial sustainability – future financial plans for 2023/24 and beyond.

We have not identified any other significant risks in relation to the other wider scope areas of audit or in NHS Grampian's arrangements for securing Best Value from our initial planning work.

We will be undertaking work in all wider scope Code areas to gain an understanding of the arrangements in place and may update our planning assessment dependent upon findings.

We review your arrangements before we issue our Annual Report.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for Audit and Risk Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets;
- We provide a separate report to Audit Scotland to support the consolidation at a Scottish Government level; and
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Audit Scotland with NHS Grampian in December 2022. Our agreed with the Director of Finance is £245,110. This fee includes:

- Auditor remuneration £204,320;
- Pooled costs £18,490;
- Sectoral cap adjustment of £14,310; and
- Contribution of £7,990 to Audit Scotland costs.

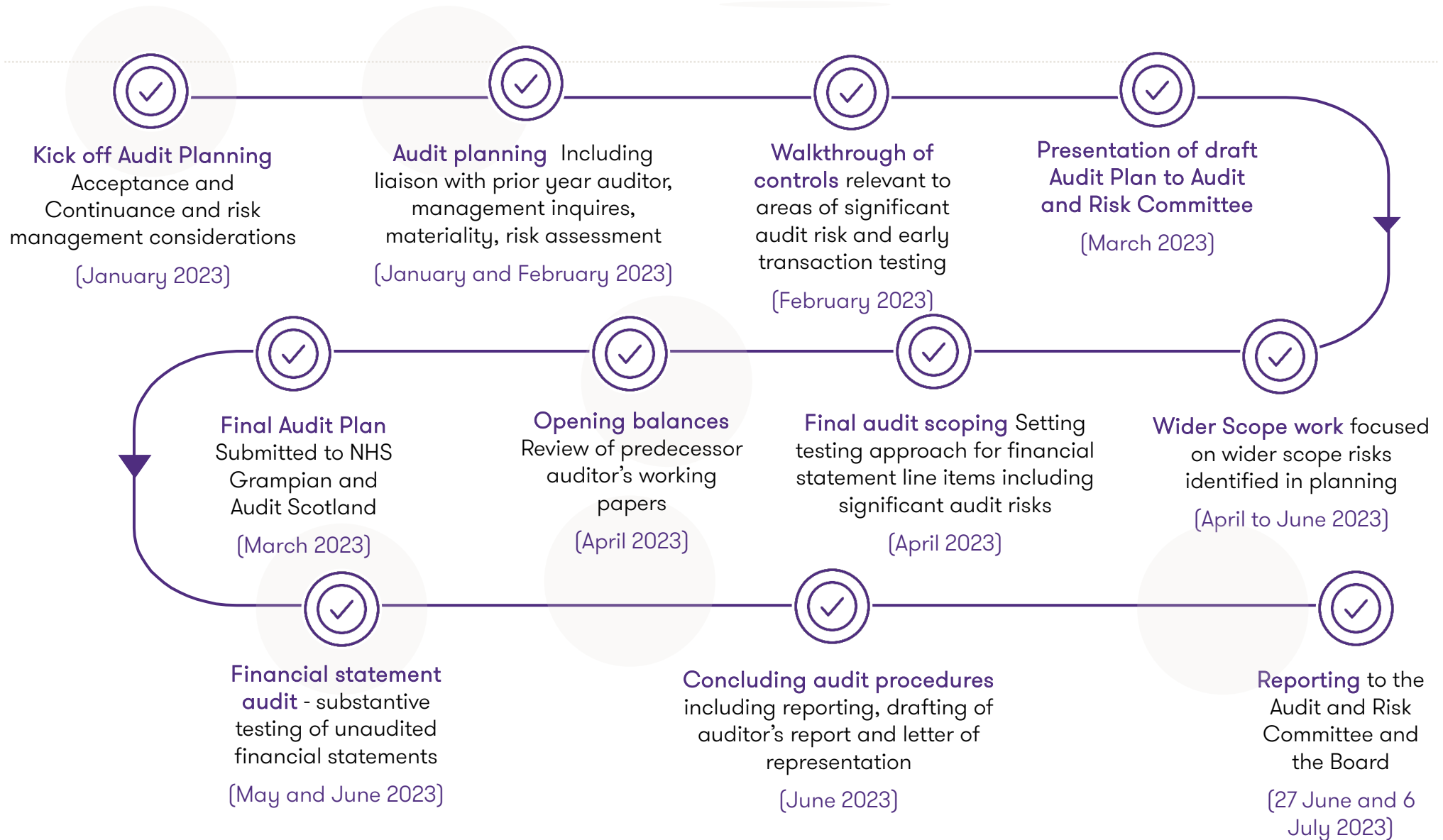
Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

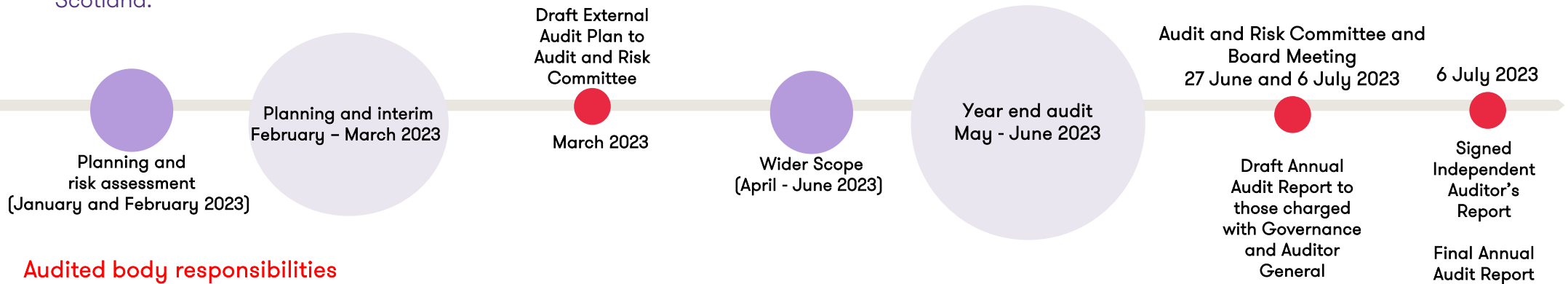
Audit approach



Audit timeline

The target dates specified by Audit Scotland for submission of audit plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and audited accounts and the Annual Audit Report by 30 June 2023. We have set out below the planned timescales for the NHS Grampian audit.

The Board is convening to sign the final Annual Report and Accounts on 6 July 2023. This is after the target submission date of 30 June 2023. Following the Board's approval of the accounts, we will be able to sign the auditor's report and make the required submissions to Audit Scotland.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

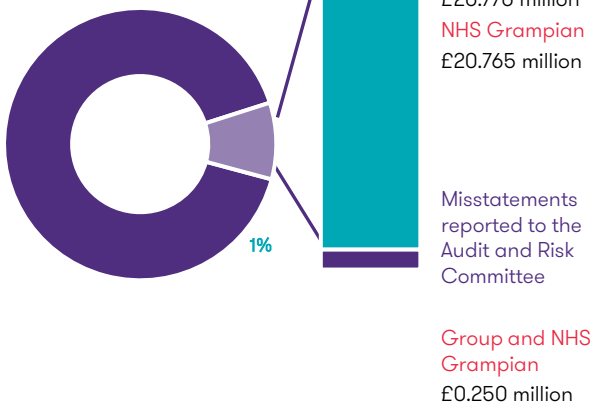
- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us;
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit;
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements;
- ensure that all appropriate staff, including NHS Grampian's external valuers, are available to us for queries over the planned period of the audit, or as otherwise agreed; and
- respond promptly and appropriately to all audit queries, within agreed timescales.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure less Integration Joint Board (IJB) contributions. We have determined **planning materiality** to be £20.770 million for the Group (£20.765 million for NHS Grampian only), which equates to approximately 1.3% of gross expenditure less IJB contributions as per the 2021/22 audited financial statements.

2021/22 Gross expenditure less IJB contributions

Group
£1,597.607 million
NHS Grampian
£1,597.468 million



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (£12.461 million for the Group and £12.459 million for NHS Grampian only). This is based on our understanding of NHS Grampian and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level of £25,000** to the auditable elements of the Remuneration and Staff Report.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £250,000, being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based on the unaudited 2022/23 financial statements when received in April 2023. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Group audit scope and risk assessment

In accordance with ISA (UK) 600 (Revised November 2019) ‘Audits of Group Financial Statements (including the Work of Component Auditors)’, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements present a true and fair view and have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

The NHS Grampian group consists of the following bodies:

Subsidiary

- NHS Grampian Endowment Funds
- **Associates**
- Aberdeen City Integration Joint Board
- Aberdeenshire Integration Joint Board
- Moray Integration Joint Board.

There were no key changes in the group in 2022/23 from 2021/22.

We consider NHS Grampian as the only component to be “individually financially significant” to the NHS Grampian group, and the Endowment Fund to be “not significant but material”. We will therefore carry out a full scope audit of NHS Grampian, using NHS Grampian materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by the Endowment Fund. Analytical procedures will be performed using group materiality on all other consolidated balances, including those in relation to the three Integration Joint Boards (IJBs).

We are the external auditor for Aberdeenshire Integration Joint Board and Moray Integration Joint Board. However we are not the external auditor of Aberdeen City Integration Joint Board.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the group audit scope.

Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

As required by Auditing Standards – ISA (UK) 240

Our initial planning work identified that journals are prepared by a separate officer to the officer posting the journal. However there is no control in place to prevent officers circumventing this segregation of duties. Our work to date has also identified that the Deputy Director of Finance and the Assistant Director of Finance have access rights to post journals to the financial system. We do not expect senior members of the management team to have the ability to post journals as this increases the opportunity for management override of controls. We understand that they only tend to post journals on the rare occasions when the value of the journal exceeds the posting levels of other staff. We are aware of compensatory controls that management have in place. We will factor this into our testing assessment.

We will:

- Document our understanding of and evaluate the design effectiveness of management's key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals, including journals posted by senior management;
- Test the high risk journals we have identified;

Significant audit risks (continued (1))

Management Override of Controls

As required by Auditing Standards – ISA (UK) 240

- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates;
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions; and
- Review the compensating controls put in place by management for journals posted by the Deputy Director of Finance and Assistant Director of Finance.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (continued (2))

Valuation of land and buildings (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

In accordance with the NHS Accounting Manual and the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, NHS Grampian is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised NHS land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value.

As at 31 March 2022, NHS Grampian held property, plant and equipment (PPE) of £652.356 million including land, buildings and dwellings of £505.543 million. Given the significant value of the land, buildings and dwellings held by NHS Grampian and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of these assets. The risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be misstated.

The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for land and buildings and the NHS sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our final audit findings report in June 2023.

NHS Grampian appoint Valuation Office Agency to revalue land and buildings assets every year. The Foresterhill site is physically inspected each year. The remainder asset base is valued on a rolling basis over five years – 80% desktop valuation and 20% physical inspection each year. Based on our planning procedures to date, and subject to the results of the year-end valuations we will pinpoint the risk on:

- Land and buildings where in year valuation movements are not in line with our expectations;
- Land and buildings which have been revalued by the management's valuers without any physical inspection of relevant data; and
- Land and buildings which have not been formally valued during the year, including management's assessment of any impairment in relation to these assets.

Significant audit risks (continued (3))

Valuation of land and buildings (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

As at 31 March 2022, NHS Grampian held £79.911 million of assets under construction (AUC), which we understand the majority of which relates to the on-going Baird Family Hospital and Anchor Centre capital projects. We understand the AUC balance will continue to grow as this large project progress, with further capital commitments, of which £147.502 million was disclosed in the 2021/22 audited financial statements.

AUC is held at cost less impairment until become operational and are transferred into use. There is a risk particularly in relation to long running construction projects that the assets could be impaired.

Management should undertake an impairment review of AUC, at the end of each financial year, to assess whether there are any indicators of impairment and the resultant impact on their carrying value.

Our testing will include:

- Evaluating management's processes and controls for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations have been carried out;
- Challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the Board's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- Engaging our own valuations expert to assess the instructions issued by NHS Grampian to their valuers, the final valuers' report and the assumptions used that underpin the final valuations;
- For any assets not formally revalued, evaluating the judgement made by management or others in the determination of the current value of these assets;
- Reviewing your impairment assessment as to whether there are indicators of impairment for key components of AUC; and if there are indicators of impairment for AUC, we will review your calculation of the potential impact on the carrying value, including any work undertaken by your expert, in line with the requirements of the Accounts Manual and International Accounting Standard 36.

Significant audit risks (continued (4))

Risk of Fraud in Revenue (occurrence)

As required within Auditing Standards- ISA (UK) 240

As set out in ISA (UK) 240 (Revised May 2021) there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to revenue received through Revenue Resource Allocations direct from Scottish Government. Similarly funding from services commissioned from the Joint Boards (JIBs) and revenue from other Scottish Boards is forecast and is confirmed by funding letters/inter-Board funding agreements, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition. As such, we rebut the risk of fraud in revenue in relation to these income streams.

However, in 2022/23 Health Boards continue to face significant external pressure to deliver planned budgets and minimise any additional overspends. NHS Grampian's budget indicates that it will recognise other income in 2022/23, which we deem to be material to the financial statements. We have therefore identified the risk of fraud in revenue in relation to other income. On receipt of the draft financial statements, we will revisit our evaluation of the risk of fraud in revenue in relation to other income.

In relation to other income we will:

- Evaluate your accounting policy for recognition of Other Income for appropriateness and compliance with the NHS Accounting Manual and FREM;
- Perform substantive testing of Other Income transactions at and around year end to verify the accounting period the transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review post year end receipts and verify the accounting period these transactions relate to and confirm they have been accounted for in the correct accounting period; and
- Review the judgements and estimates made by management when recognising accrued and deferred income at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (continued (5))

Risk of Fraud in Expenditure (cut-off)

As recommended in Practice Note 10

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

NHS Grampian's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focus our risk on the completeness of following non-payroll expenditure streams: independent primary care services, drugs and medical supplies and other healthcare expenditure. Our testing will include a specific focus on year end cut-off arrangements, including consideration of the existence of accruals and provisions, In relation to non payroll/non finance expenditure.

We will:

- Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounting Manual and FReM;
- Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly; and
- Review the alternative arrangements you made in response to disruption during 2022/23 due to the eFinancials system patch issue.

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in June 2023.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Implementation of IFRS 16	NHS Grampian only	<p>IFRS 16 was implemented by central government bodies under the FReM from 1 April 2022. Under IFRS 16 a lessee is required to recognise right-of-use assets and associated lease liabilities in its Statement of Financial Position. This will result in significant changes to the accounting for leased assets and the associated disclosures in the financial statements in the year ended 31 March 2023.</p> <p>Further detail on the implications of this Accounting Standard is set out in the Appendices.</p>	<p>Our initial discussions with officers at NHS Grampian, in 2022/23, have indicated that:</p> <ul style="list-style-type: none"> NHS Grampian has established systems and processes to capture the data required to account for right-of-use lease assets in accordance with IFRS 16 revised its accounting policies for the year ended 31 March 2023 to reflect the requirements of this accounting standard. <p>We will assess the existence, accuracy and completeness of the right-of-use assets and associated lease liabilities, and the related disclosures, during our audit.</p>

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022/23 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We issue a separate "consistency with" opinion on your summarisation schedules which confirm whether the schedules are consistent with the audited financial statements.
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Informing the Shared Intelligence for Health and Social Care Group via a data return, presented and facilitated by Audit Scotland

- Participating in the Audit Scotland NHS Sector group
- Completing a data set provided by Audit Scotland to support NHS Overview reporting.
- Review of NHS Technical guidance prior to issue by Audit Scotland.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern..

PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on NHS Grampian's arrangements to ensure financial sustainability.

Other matters (continued (1))

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: other operating income, expenditure, valuation of land and buildings, journal entries and material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of NHS Grampian from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Board and Audit and Risk Committee meetings and review of key documents.

In line with Audit Scotland's Handover guidance we seek to place as much assurance as possible on your previous auditor's work on your opening balances. We will visit your previous auditor and review their prior year audit working paper files.

We will consider any findings from this review on our risk assessment for the current year.

Financial reporting developments

We invited members of your finance team to our NHS audit workshops earlier this year. In January 2023, NHS Grampian representatives attended our workshop.

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2022/23 NHS audits is the implementation of IFRS16 from 1 April 2022. Further detail on the implications of this Accounting Standard to your 2022/23 audit is set out in the Appendices.

We will also engage our internal public sector financial reporting team to undertake a technical review of your draft financial statements.

Other matters (continued (2))

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of NHS Grampian's financial statements, which resulted in five recommendations being reported in their 2021/22 Annual Audit Report.

As part of our final accounts we will follow up on the implementation of these prior year recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (as at February 2023)
In progress	<p>Longer term financial planning</p> <p>Responding to the pandemic has resulted in significant additional expenditure but break-even has been achieved through additional funding provided by the Scottish Government to support the response to Covid-19.</p> <p>Financial plans have been focused on the short term. With uncertainty around funding and a significant financial shortfall, it will be difficult for the board to deliver remobilisation plans and the recently approved strategic aims in its 'Plan for Life.</p> <p>Recommendation</p> <p>Develop a robust medium term financial plan with stakeholders and partners. This should be aligned with the board's workforce and transformation plans and include a range of different scenarios to reflect the uncertain environment to assist future decision making.</p>	<p>A Medium Term Financial Framework (MTFF) was prepared in 2022 and was considered by the NHS Grampian Board in June 2022 as part of the Board's "Plan for the Future" strategy. The MTFF is currently being updated to reflect the Board's projected financial position over the next five years. The updated version will be presented to the Board in April 2023.</p>

Other matters (continued (3))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	<p>Performance</p> <p>The Board is facing significant operational challenges as it takes steps to revert to ‘business as usual’ activities, begins to tackle waiting list backlogs and aims to improve patient treatment times. Board activity was adversely affected by the Covid-19 disruption and managing the impact will continue to be a major challenge for the board in the years ahead.</p> <p>Recommendation</p> <p>Performance reporting arrangements should be kept under review to ensure there is transparent reporting and regular scrutiny of the measures being taken to address backlogs.</p>	<p>Performance against key indicators is reported on a weekly basis to the Chief Executive Team and the Weekly Systems Decision Making Team who agree changes to operational arrangements to deal with performance issues on the basis of the data provided. A detailed Performance Report is also provided to the Performance Assurance, Finance & Infrastructure Committee (PAFIC) which is a formal sub-committee of the Board.</p>
In progress	<p>Finance capacity</p> <p>With changing roles, a loss of senior experience and ongoing competing demands, the finance team have been experiencing capacity pressures but are taking prompt action to recruit into vacant posts.</p> <p>Recommendation</p> <p>The finance function should be reviewed to ensure there is sufficient capacity to meet ongoing pressures. This should include further succession planning and building in sufficient management review and support, especially for staff in new roles, to assist them to operate effectively.</p>	<p>Successful appointments have been made to the Director of Finance post and the Assistant Director of Finance post with both posts being filled by very experienced and well qualified candidates. Appointments have also been made to the Finance Manager post supporting Infrastructure projects and Financial Governance Manager. We are also in the process of recruiting to a Systems Manager post.</p> <p>We are aware that we are likely to lose a number of other experienced staff in the short to medium term. Development of plans for succession planning is regularly reviewed by the Senior Finance Team.</p>

Other matters (continued (4))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	<p>Purchase order processing (POP) accrual</p> <p>Approximately £5.4 million of the POP accrual at 31 March 2022 remained outstanding on the system at 30 June 2022. Given the high volume of low value items involved, it was not easily possible to verify the validity of the orders. Due to the time that has passed, it has been assumed the orders are no longer valid and should be cancelled from the system. We therefore concluded that expenditure and accruals were overstated by £5.4 million.</p> <p>Recommendation</p> <p>Outstanding orders should be regularly reviewed to ensure they are followed up with services and concluded as appropriate in a timely manner.</p>	<p>A full review of outstanding orders was undertaken at 31 July 2022 which reduced the POP accrual from £15.4 million at 31st July 2022 to £11.9 million at 31st August 2022.</p> <p>An automated routine to delete all outstanding orders over 4 months has not yet been introduced in light of invoicing delays experienced during the 2022/23 financial year. Once we have assurance that all invoicing activity is up to date the automated routine to delete outstanding orders will be introduced.</p>

Other matters (continued (5))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	<p>Untaken leave accrual</p> <p>Overall, an improved methodology was implemented to support the annual leave accrual. While not material, a number of issues arose in the audit verification of the accrual which would merit some further refinement of the process.</p> <p>As a result of Covid-19, the calculation includes a significant accrual carried forward from 2020/21. This will reduce as time passes and staff use their leave. The opening accrual however was not adjusted to remove carried forward balances in respect of staff who left in the 2021/22 who were on the payroll in March 2021.</p> <p>In addition, there were a high number of errors in the audit sample. While we acknowledge that leave requests and changes will regularly be being made to the system, changes in leave entitlement should be much less frequent. This year may have been unique as the new eESS system which was used for the calculation was only implemented in October 2021. The system is therefore probably still bedding in.</p> <p>Recommendation</p> <p>We would suggest that the findings from the audit sample are considered further and steps taken to improve the calculation next year.</p>	<p>Close working is taking place between Finance staff and the Workforce Information Team to improve the robustness of information on which the Untaken Annual Leave accrual is based. This is focussed on making sure that figures for leave taken (recorded on the SSTS Payroll System) and leave entitlement (recorded on the eEES HR system) are accurate.</p> <p>In addition clear guidance has been issued to managers and staff on the expectation that untaken annual leave levels will be managed at the year end and that carry forward of annual leave should only be authorised in certain circumstances (e.g. exceptional service pressures, maternity leave, long term sick leave).</p>

Wider scope risks identified in planning

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

2016 Code	2021 Code
Financial Sustainability	Financial Sustainability
Financial Management	Financial Management
Governance and transparency	Vision, Leadership and Governance
Value for Money	Use of Resources to Improve Outcomes

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability. We have not identified risks in relation to Financial Management; Vision, Leadership and Governance; and Use of Resources from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

Financial sustainability

Wider scope risks identified in planning (continued (1))

Financial sustainability - continued

Looking forward, NHS Grampian's forecast financial position becomes increasingly challenging over the three years.

In line with Scottish Government guidance, NHS Grampian has submitted their first draft of their three year financial plan for 2023/24-2025/26. This plan identifies a funding shortfall of an estimated £78 million for 2023/24. We understand that management are in conversation with Scottish Government and a revised draft is required to be submitted shortly in March 2023.

We will seek to understand the future financial forecasts and plans for NHS Grampian for 2023/24 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of funding shortfalls. We will also consider the action NHS Grampian is taking to address identified funding gaps and associated savings plans. Our work will also include following-up on the prior year recommendation in respect of longer term financial planning made by your predecessor auditor (as reported on page 19).

We will also seek to understand any inflationary costs for the Baird Family Hospital and Anchor Centre project, including the project funding position. Our work will also include reviewing the monitoring, reporting and governance arrangements you have in place for this project.

Financial management

At December 2022, NHS Grampian reported a forecast funding gap of £30 million for 2022/23, with £10 million slippage from the budgeted deficit of £19.9 million. Key areas of challenge include inflationary pressures, drug cost pressures and supplementary (agency and locum) staff expenditure.

We understand that the forecast funding gap has since reduced due to action taken by the health board through non-recurring savings to bring the forecast funding gap back in line with the budgeted position. The use of non-recurring savings bridges NHS Grampian's financial position temporarily for 2022/23 only and does not address the underlying deficit.

The forecast year position has recently improved further due to further funding received from Scottish Government for the New Medicines Fund, which has been allocated to all health boards. NHS Grampian will receive an allocation of £9.4 million, which will reduce the forecast year end overspend to £14.9 million, below the £19.9 million budgeted deficit included within their 2022/23 financial plan.

Wider scope risks identified in planning (continued (2))

Financial management - continued

Correspondence received by NHS Grampian from Scottish Government indicated that support will be provided to NHS Boards to deliver breakeven financial position and on the same basis as pre-pandemic - in that it will need to be accompanied by a recovery plan and will be repayable in full by the health board.

We will seek to understand the effectiveness of NHS Grampian's effectiveness of the budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by NHS Grampian during 2022/23 and we will seek to understand the future financial implications of this. Our work will also include following-up on the predecessor auditor's prior year recommendation in relation to the capacity of the finance team (as reported on page 20).

Vision, Leadership and Governance

NHS Grampian has a relatively new senior management structure, including a new Director of Finance who took up post in August 2022. He was previously the Chief Finance Officer for Aberdeen City Integration Joint Board. There are also recent changes within the integration joint boards' senior management teams.

We have not identified a risk in relation NHS Grampian's arrangements for vision, leadership and governance from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

Use of Resources to Improve Outcomes

NHS Grampian is facing significant operational challenges due capacity pressures seen across the NHS system, including within emergency and planned care. In January 2023, 56.5% (Local Delivery Plan Standards target 95%) of patients to waited longer than four hours from arrival to admission, discharge or transfer for A&E treatment, the third lowest performance of all health boards.

As noted previously under the heading '**Financial Sustainability**', NHS Grampian has a high dependency on supplementary staffing, due to workforce recruitment challenges and to manage clinical risk. We understand that the use of supplementary staff is to ensure the safe delivery of demand-led care. At September 2022, NHS Grampian staff

Wider scope risks identified in planning (continued (3))

Use of Resources to Improve Outcomes - continued

turnover rate was higher than the average in Scotland, 11.6% compared to 8.1% across.

We will review the arrangements that NHS Grampian has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements NHS Grampian has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider Scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and include appropriate reference in our Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team. As required by the planning guidance we will report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team.

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with NHS Grampian in December 2022. Our proposed audit fee has been agreed with the Director of Finance, and this is set out on page 20 of this Audit Plan. The Audit Plan was presented to the Audit and Risk Committee on 14 March 2023. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit Fees (continued)

Audit fees for 2022/23

Service	Fees £
External Auditor Remuneration	£204,320
Pooled Costs	£18,490
Contribution to Audit Scotland support costs	£7,990
Contribution to Performance Audit and Best Value	Nil
Sectoral cap adjustment	£14,310
2022/23 Fee	£245,110

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no planned non-audit services	Nil

Fee assumptions

In setting the fee for 2022/23 we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit,
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements,
- provide timely access to officers including any valuation experts, and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

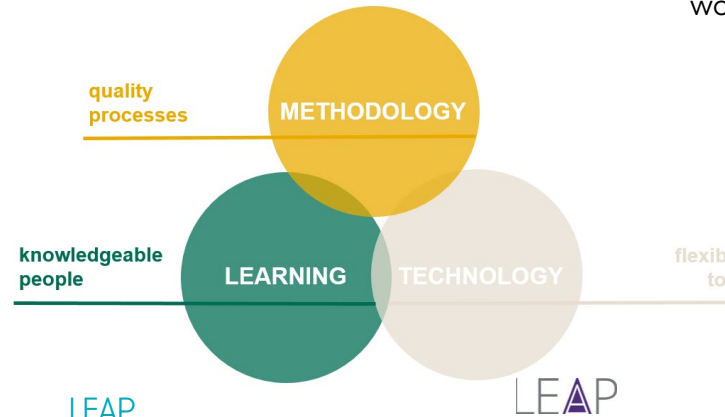
Our audit methodology is risk based and includes developing a good understanding of NHS Grampian. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021-22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2021](#).

Use of audit, data interrogation and analytics software



LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring



ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of NHS Grampian that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of NHS Grampian.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. **We did not provide any non-audit or additional services to NHS Grampian prior to our appointment as auditors.**



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

NHS Grampian

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

	Audit Plan	Annual Report (our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of NHS Grampian's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on NHS Grampian was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at NHS Grampian.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NHS Grampian's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan;
- remain alert to new risks and amend our risk assessments accordingly; and
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022/23, we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis;
- communicate emerging issues to Audit Scotland; and
- contribute to the National Fraud Initiative report.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2022/23) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Grampian we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on NHS Grampian was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
EFinancials	Financial reporting	<ul style="list-style-type: none"> Review of Service Auditor Reports ITGC Assessment
Wellsky	Operating expenditure	<ul style="list-style-type: none"> ITGC Assessment
PECOS	Operating expenditure	<ul style="list-style-type: none"> ITGC Assessment
Real asset management	Property, plant and equipment	<ul style="list-style-type: none"> Review of Service Auditor Reports ITGC Assessment
Electronic Staff Record	Payroll	<ul style="list-style-type: none"> Review of Service Auditor Reports ITGC Assessment

Our work will also include a review of NHS Grampian's cyber security controls.

On 4 August 2022, One Advanced (the supplier of eFinancials) was hit by a ransomware attack. They provide outsourced hosting services to a number of audited bodies. This issue impact on both financial and non-financial systems. We are currently making inquiries as to whether NHS Grampian was affected by this event. Our inquiries include:

- whether NHS Grampian was affected;
- assess the impact including been data breaches, either through unauthorised access or exfiltration; and
- actions that have been taken.

We will reassess our IT audit procedures, if required, in response to this risk.

Right of Use Assets - IFRS 16 implementation

IFRS 16 was implemented by NHS bodies from 1 April 2022. This Accounting Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

Following the previous deferrals of IFRS 16 Leases in the NHS, Scottish Government has worked with NHS bodies in Scotland in the implementation of this new accounting standard. It came into force for Scottish health bodies on 1 April 2022.

IFRS 16 updates the definition of a lease to “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration”.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to a number of exemptions, as set out below.)

Key points that NHS Grampian will need to consider in their financial statements in 2022/23 include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (Prior year comparators do not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term is less than 12 months.

- Assets where there is no, or a below market rate, peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

NHS Grampian's systems and processes

We believe that most NHS bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we have held a number of discussions with the finance team regarding their approach to adopting this new standard.

Future auditing developments

There are changes to the following ISAs (UK) which will impact on our NHS audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022.:

- ISQM (UK) 2 (Issued July 2021) ‘Engagement Quality Reviews’
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

- ISA (UK) 600 (Revised September 2022) ‘Special Considerations- Audits of Group Financial Statements (including the work of component auditors)’ - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Definition of engagement team	<ul style="list-style-type: none"> • The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The group auditor is required to determine the nature, timing and extent of involvement of component auditors in any group audit. • Component auditors may increasingly be involved in all phases of the group audit. The group auditor should be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work.
Documentation	<ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.



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