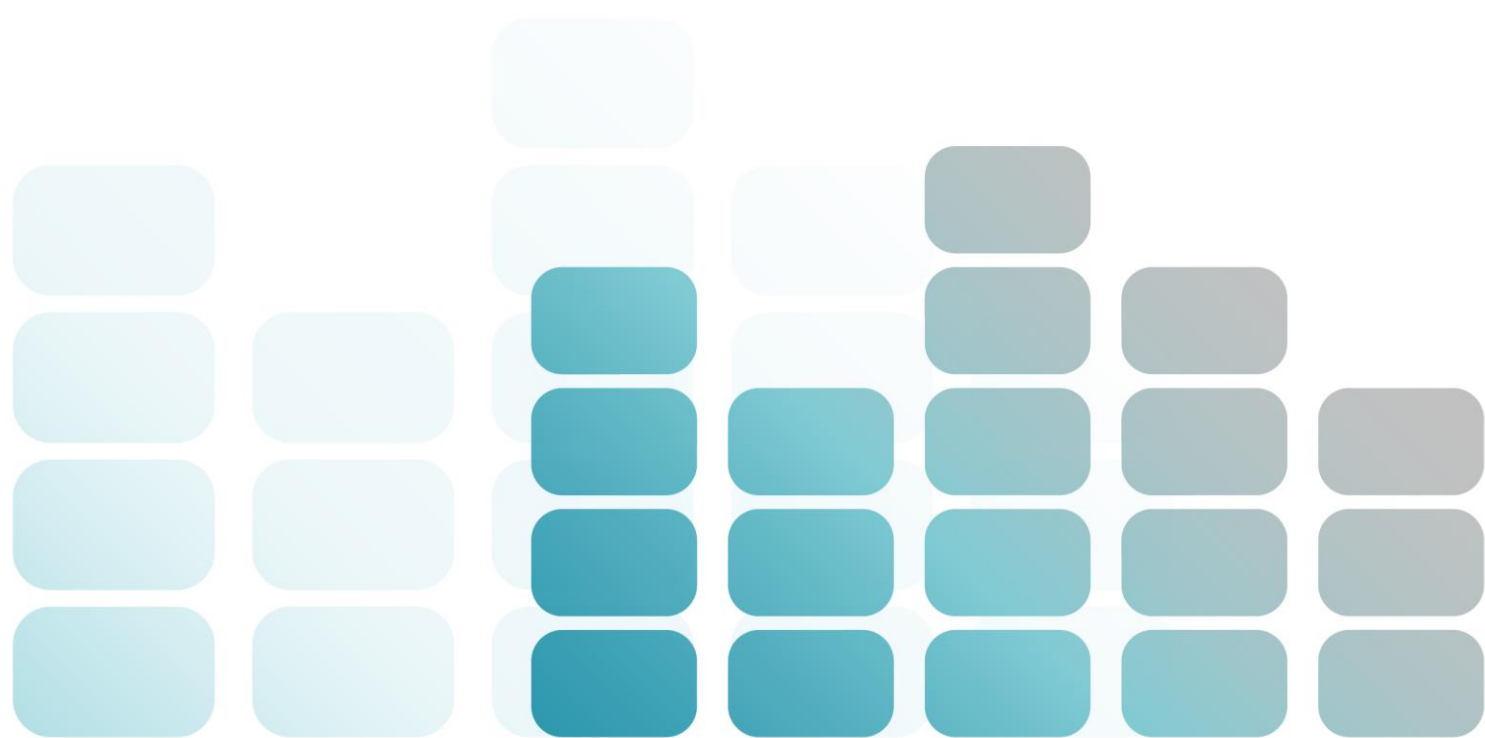


NHS Tayside

Annual Audit Plan 2024/25



Prepared for NHS Tayside
February 2025

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of NHS Tayside's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Rachel Browne, of Audit Scotland, was appointed by the Auditor General for Scotland as the external auditor of NHS Tayside for the period from 2023/24 until 2026/27. The 2024/25 financial year is therefore the second year of her four-year audit appointment.

3. Rachel and the audit team are independent of NHS Tayside in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of NHS Tayside to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on NHS Tayside's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership, and Governance; and Use of Resources to Improve Outcomes.
- Reporting on NHS Tayside's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the auditor and NHS Tayside. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on NHS Tayside's arrangements in place for the wider scope areas.

NHS Tayside's responsibilities

8. NHS Tayside has responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Communication of fraud or suspected fraud

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud within NHS Tayside, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit of the annual report and accounts

10. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This section outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

13. The materiality levels determined for the audit of NHS Tayside are outlined in [Exhibit 1](#). We have concluded that the same materiality levels should apply for both NHS Tayside and its Group.

Exhibit 1

Materiality levels for 2024/25 audit

Materiality	NHS Tayside
Planning materiality: Based on an assessment of the needs of users of the financial statements and the nature of NHS Tayside's operations, gross expenditure has been used to determine materiality based on the audited 2023/24 financial statements. Materiality has been set at 2 per cent of gross expenditure.	£43 million
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£28 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements greater than the reporting threshold amount.	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team's cumulative knowledge of NHS Tayside, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to these risks are outlined in the exhibit.

16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to NHS Tayside and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the 2024/25 financial statements

Risk of material misstatement	Planned audit response
Fraud caused by management override of controls As set out in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Test transactions and journals with a focus on significant risk areas, including year-end and post-close down entries. • Review significant accounting estimates. • Assess any changes to the methods and underlying assumptions used to prepare significant accounting estimates compared to the prior year. • Conduct focussed testing of accruals and prepayments. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Evaluate any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.

Source: Audit Scotland

Other areas of audit focus

17. In addition to the significant risks of material misstatement in [Exhibit 2](#), the following areas of specific audit focus have been identified as part of our planning process and will be reported on in the Annual Audit Report:

- **Estimation in the valuation of land and buildings:** NHS Tayside holds land and buildings with a net book value of £543 million as at 31 March 2024. These assets are revalued on an annual basis by external valuers. Valuations are based on specialist and management assumptions and small movements in these can result in material changes to valuations. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and asset values are free from material misstatement.
- **NHS in Scotland ledger system:** The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems. NHS Ayrshire and Arran procures a Type II service audit of the National Single

Instance (NSI) eFinancials services and NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems. We will review the service auditor reports and consider the impact of any assurance gap on our 2024/25 audit of NHS Tayside.

Key audit matters

18. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

19. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

20. The matters determined to be key audit matters will be communicated in the Annual Audit Report.

Group audit

21. NHS Tayside is part of a group and prepares group financial statements. The group is made up of five components, including NHS Tayside which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
NHS Tayside	Parent body	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Dundee City Integration Joint Board	Accounted for on equity basis	No – not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
Perth and Kinross Integration Joint Board	Accounted for on equity basis	No – not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
Angus Integration Joint Board	Accounted for on equity basis	No – not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
Tayside NHS Board Endowment Fund	Consolidation on a line-by-line basis	No – not material to group financial statements	Yes – analytical procedures at group level	Morris and Young

Source: Audit Scotland

22. Where audit procedures are required on a component's financial statements, and the component auditor is different to NHS Tayside's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

Wider scope and Best Value

23. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on NHS Tayside being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering NHS Tayside's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering NHS Tayside's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

24. A conclusion on the effectiveness and appropriateness of arrangements NHS Tayside has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

25. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their

duty to ensure that arrangements are in place to secure Best Value in public services.

26. Consideration of the arrangements NHS Tayside has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements NHS Tayside has in place will be reported in the Annual Audit Report.

27. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risks assessment process did not identify a need to carry out specific audit work on any of the characteristics. However, auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this will be carried out later in the audit appointment.

Significant wider scope and Best Value risks

28. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified two areas for specific focus as part of the 2024/25 audit of NHS Tayside.

Financial Sustainability

29. As detailed above, the Code of Audit Practice requires auditors to consider the financial sustainability of audited bodies in the medium to longer term.

30. In 2023/24, NHS Tayside required brokerage funding of £16.1 million (equivalent to around 1.4 per cent of NHS Tayside's annual core revenue resource limit) to achieve financial balance for 2023/24.

31. The Three-Year Financial Plan for 2024/25 to 2026/27 identified an initial funding gap of £75.2 million for 2024/25. This budget gap has been managed down during the year but the most recent financial projections in December 2024 forecast a deficit of £29.6 million for 2024/25. Brokerage will be required to fund this budget shortfall for 2024/25. Although NHS Tayside is expected to receive additional brokerage funding for 2024/25 that would be sufficient to fund the projected budget gap, this would take its total brokerage funding to be repaid when it achieves financial balance to £45.7 million.

32. The level of brokerage funding required to balance NHS Tayside's budget for 2024/25 continues to highlight the extent of the financial challenges facing the board and presents a significant risk to the sustainability of services in the future. As part of the audit we will assess NHS Tayside's future financial plans and report on these within our Annual Audit Report.

Mental Health Services in Tayside

33. As reported in our 2023/24 Annual Audit Report, NHS Tayside has been formally escalated by the Scottish Government to stage 3 enhanced monitoring and support for mental health performance. This reflects the

serious issues previously reported in this area and the risk that the board and its partners fail to deliver the required improvements to mental health services across Tayside.

34. The [Independent Oversight and Assurance Group's \(IOAG\) report on Tayside's Mental Health Services](#) was published on 11 January 2023. The final report followed a 12-month period of engagement with a range of key stakeholders across Tayside. The IOAG's remit was to provide independent assurance to the Minister for Mental Wellbeing and Social Care about progress being made against 49 recommendations made in [Trust and Respect](#), the report of the Independent Inquiry into Mental Health Services in Tayside, Dr David Strang, published in February 2020.

35. The IOAG report set out six priority areas for improvement, which correspond closely to the reprioritisation of the Living Life Well workstreams. The Minister for Mental Wellbeing and Social Care requested a detailed action plan setting out how these priorities will be addressed.

36. The Mental Health and Learning Disability Improvement Plan developed in response to the Minister's request and the plan was approved by the three IJBs and the NHS Tayside Board in March 2023. Following this the improvement plan was further expanded and developed into the Mental Health and Learning Disability Whole System Change Programme following clinical, staff and stakeholder engagement. This was approved by the three Integration Joint Boards and NHS Tayside Board in June 2023.

37. As part of our 2024/25 audit of NHS Tayside, we will consider the overall progress made in implementing the recommendations from the Independent Inquiry into mental health services in Tayside with a focus on the following key areas:

- How well has NHS Tayside and its partners progressed the recommendations deemed to be outstanding/ high risk, from the final report from the IOAG?
 - Since the January 2023 IOAG report, what progress has been made in implementing the 31 outstanding recommendations?
 - To what extent are NHS Tayside and its partners reporting on progress against the outstanding recommendations in a clear, transparent, and cohesive manner?
- How well does the Whole System Change Programme (WSCP) plan address the recommendations of the IOAG?
 - To what extent does the Whole System Change Programme address the outstanding recommendations and underlying issues?

- To what extent is the Whole System Change Programme being driven by effective leadership?

38. We will report the conclusions and recommendations from this work in our 2024/25 Annual Audit Report.

Reporting arrangements, timetable and audit fee

Audit outputs

39. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to NHS Tayside, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to NHS Tayside and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations for improvement, where required.

40. The matters to be reported in the outputs will be discussed with NHS Tayside for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which will be included in the audited annual report and accounts and signed by the appointed auditor.

41. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual report and accounts, which is 30 June 2025 for NHS bodies for 2024/25.

42. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 June 2025.

Audit timetable

43. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with NHS Tayside and reported to those charged with governance, as appropriate.

Exhibit 4**2024/25 Annual report and accounts audit timetable**

Audit activity	NHS Tayside target date	Audit team target date	Relevant committee date
Submission of unaudited annual report and accounts and all working papers to audit team	2 May 2025	N/A	N/A
Latest date for audit clearance meeting	10 June 2025	10 June 2025	N/A
Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	12 June 2025	N/A
Agreement of audited and unsigned annual report and accounts	19 June 2025	19 June 2025	19 June 2025
Approval by those charged with governance and signing of audited annual report and accounts	26 June 2025	26 June 2025	26 June 2025
Signing of Independent Auditor's Report and issue of Annual Audit Report	26 June 2025	26 June 2025	26 June 2025

Source: Audit Scotland

Audit fee

44. NHS Tayside's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for 2024/25 has been set at the baseline level of £248,700 (2023/24: £243,950).

45. In setting the audit fee, it is assumed that NHS Tayside has effective governance arrangements in place and the complete annual report and accounts and working papers will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

46. NHS Tayside is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities. The internal audit function at NHS Tayside is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

47. We will review the internal audit plan and the results of internal audit's work. This will include consideration of internal audit's work on the Scottish Standard Payroll system uprating process, to confirm that this has not identified any material issues that could impact on the accuracy of the staff costs figures of NHS bodies that use this system. We will inform other NHS external auditors of the outcome of this review.

Audit quality

48. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

49. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit. This includes a review of significant judgements and conclusions reached by the audit team,

and the appropriateness of proposed audit opinions on high-risk audits.

50. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

51. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

52. Audit Scotland may periodically seek the views of NHS Tayside on the quality of audit services provided. The audit team would also welcome feedback at any time, and this should be directed to the appointed auditor.

NHS Tayside

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