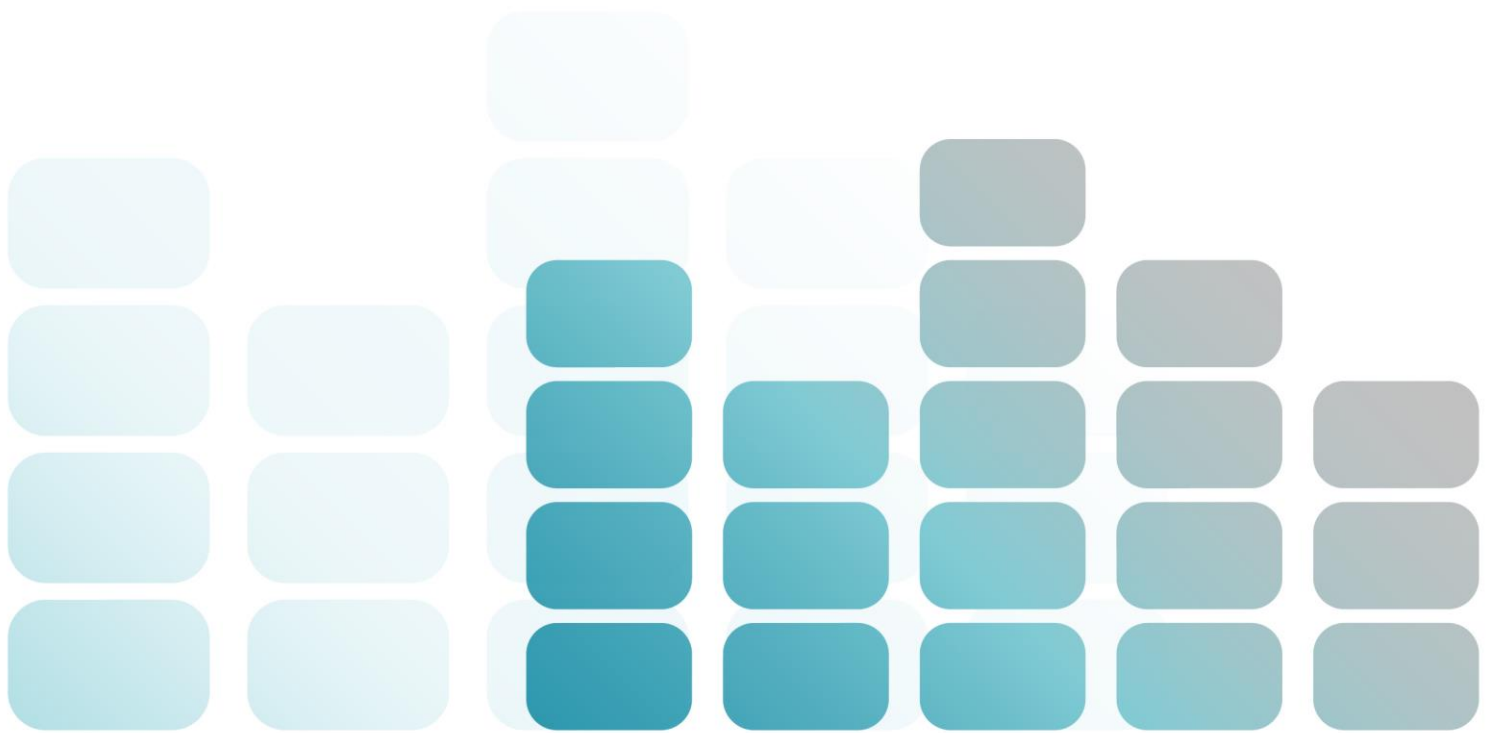


NHS Education for Scotland

Annual Audit Plan 2024/25



Prepared for NHS Education for Scotland
March 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 Education for Scotland's (NES) 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. There is a change in the appointed auditor for the NHS Education for Scotland audit this year. Lisa Duthie, Audit Director, has been appointed by the Auditor General for Scotland as the external auditor.

3. Lisa and the audit team are independent of NHS Education for Scotland 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 Education for Scotland.

Communication of fraud or suspected fraud

5. In line with ISA 240, 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, 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 scope and responsibilities

Scope of the audit

6. 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 the 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 the 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

7. The Code of Audit Practice sets out the respective responsibilities of the auditor and NHS Education for Scotland. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

8. The responsibilities of auditors in the public sector are established by 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 arrangements in place for the wider scope areas.

NHS Education for Scotland's responsibilities

9. NHS Education for Scotland 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.

10. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Audit of the annual report and accounts

11. 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

12. 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.

13. 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.

14. The materiality levels determined for the audit of NHS Education for Scotland are outlined in [Exhibit 1](#).

Exhibit 1

Materiality levels for 2024/25 audit

Materiality	Audited body
Planning materiality: Based on an assessment of the needs of users of the financial statements and the nature of NHS Education for Scotland's operations, gross expenditure has been used as the basis for calculating planning materiality. Planning materiality for the 2024/25 audit has been calculated at 2 per cent of gross expenditure based on the audited 2023/24 financial statements.	£16.3 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 75 per cent of planning materiality.	£12.2 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

15. The risk assessment process draws on the audit team's cumulative knowledge of NHS Education for Scotland, 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.

16. Based on the risk assessment process, one significant risk of material misstatement to the financial statements has been identified. [Exhibit 2](#) summarises this risk and the planned audit procedures we plan to perform to gain assurance.

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: • Evaluate the design and implementation of controls over journal entry processing • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end • Focussed testing of accruals and prepayments. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Evaluate any significant transactions outside the normal course of business.

Source: Audit Scotland

Key audit matters

17. 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 Education for Scotland and those charged with governance, where relevant.

18. The Code of Audit Practice also 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. The matters determined to be key audit matters will be communicated in the Annual Audit Report.

Wider scope and Best Value

Introduction

19. 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 Education for Scotland 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 Education for Scotland's medium to longer-term planning for service delivery. NHS Education for Scotland have to find an additional £9.1m in savings by 2026/27 to meet the savings targets set by the Scottish Government. We will monitor progress against savings targets as part of our audit work.
- **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 Education for Scotland's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

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

Duty of Best Value

21. 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. The [Best Value in public services: guidance for Accountable Officers](#) issued by Scottish Ministers sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

22. Consideration of the arrangements NHS Education for Scotland has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the adequacy of these will be reported in the Annual Audit Report.

23. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM and auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the five-year audit appointment. This was carried out during the 2023/24 audit and the risk assessment process for the 2024/25 audit did not identify a need to carry out any specific audit work on any of the other Best Value characteristics this year.

Significant wider scope and Best Value risks

24. Our planned work on our wider scope responsibilities and Best Value is risk based and proportionate, and no significant risks in the wider scope areas or Best Value were identified from the 2024/25 risk assessment process.

Reporting arrangements, timetable and audit fee

Audit outputs

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

- this Annual Audit Plan
- an Independent Auditor's Report to NHS Education for Scotland, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- an Annual Audit Report to NHS Education for Scotland 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.

26. The matters to be reported in the outputs will be discussed with NHS Education for Scotland 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.

27. 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 target date for approving the annual report and accounts, which is 30 June 2025 for NHS bodies for 2024/25.

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

Audit timetable

29. Achieving the timetable for the 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 3](#) 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 will be discussed with NHS Education for Scotland and reported to those charged with governance, as appropriate.

Exhibit 3**2024/25 Annual report and accounts audit timetable**

Audit activity	Target date
Submission of unaudited annual report and accounts and all working papers to audit team	6 May 2025
Latest date for audit clearance meeting	4 June 2025
Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	9 June 2025
Consideration of proposed Annual Audit Report and audited annual report and accounts by those charged with governance	16 June 2025
Agreement of audited annual report and accounts for approval by the Board	19 June 2025
Approval and signing of audited annual report and accounts	26 June 2025
Certification of Independent Auditor's Report and issue of Annual Audit Report	26 June 2025

Source: Audit Scotland

Audit fee

30. NHS Education for Scotland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2024/25 audit is set at £81,280 (2023/24: £79,730).

31. In setting the audit fee, it is assumed that NHS Education for Scotland has effective governance arrangements in place and the complete annual report and accounts 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

32. NHS Education for Scotland 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.

33. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if the reported findings impact on the external audit.

Audit quality

34. 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](#).

35. 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.

36. 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.

37. 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.

38. Audit Scotland may periodically seek the views of NHS Education for Scotland 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 Education for Scotland

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