Public Health Scotland

2024/25 Annual Audit Report to the Board and the Auditor General for Scotland

June 2025

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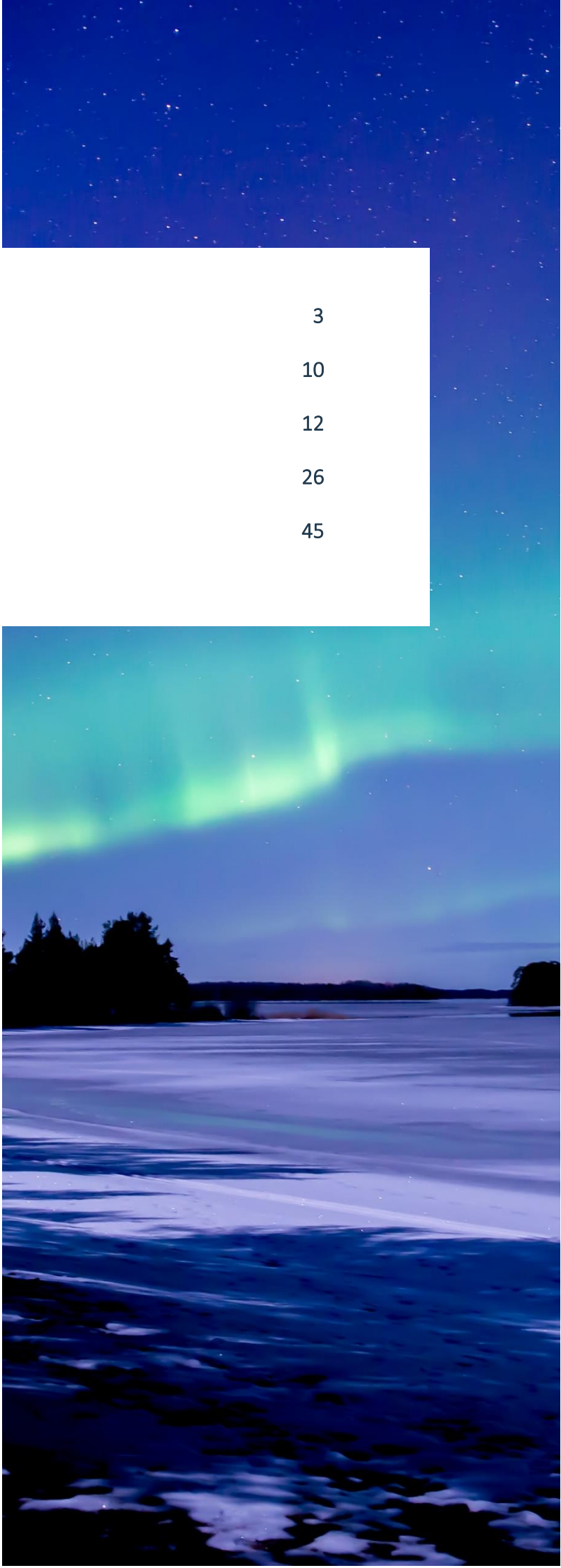


Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Audit approach	Our audit approach has been based on gaining an understanding of PHS's control environment and has been risk based. This included: • an evaluation of Public Health Scotland's (PHS) internal control environment, including the IT systems and controls; and • substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our key audit risks. We have not altered our audit plan.
Key audit findings	PHS had reasonable administrative processes in place to prepare the annual report and accounts. We received the draft financial statements for audit in line with our agreed timetable. We obtained adequate evidence in relation to the significant audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We have not identified any adjustments to the figures in the financial statements. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.

Internal controls	The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses. No material weaknesses or significant deficiencies were noted.

Wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Effective and appropriate arrangements are in place  PHS met its key financial targets in the year, delivering an underspend against its revenue resource limit and achieving a break-even position against its capital resource limit. Appropriate financial management arrangements were in place to achieve the key financial targets. The quality of financial information and reporting presented to PHS has improved over the last year.

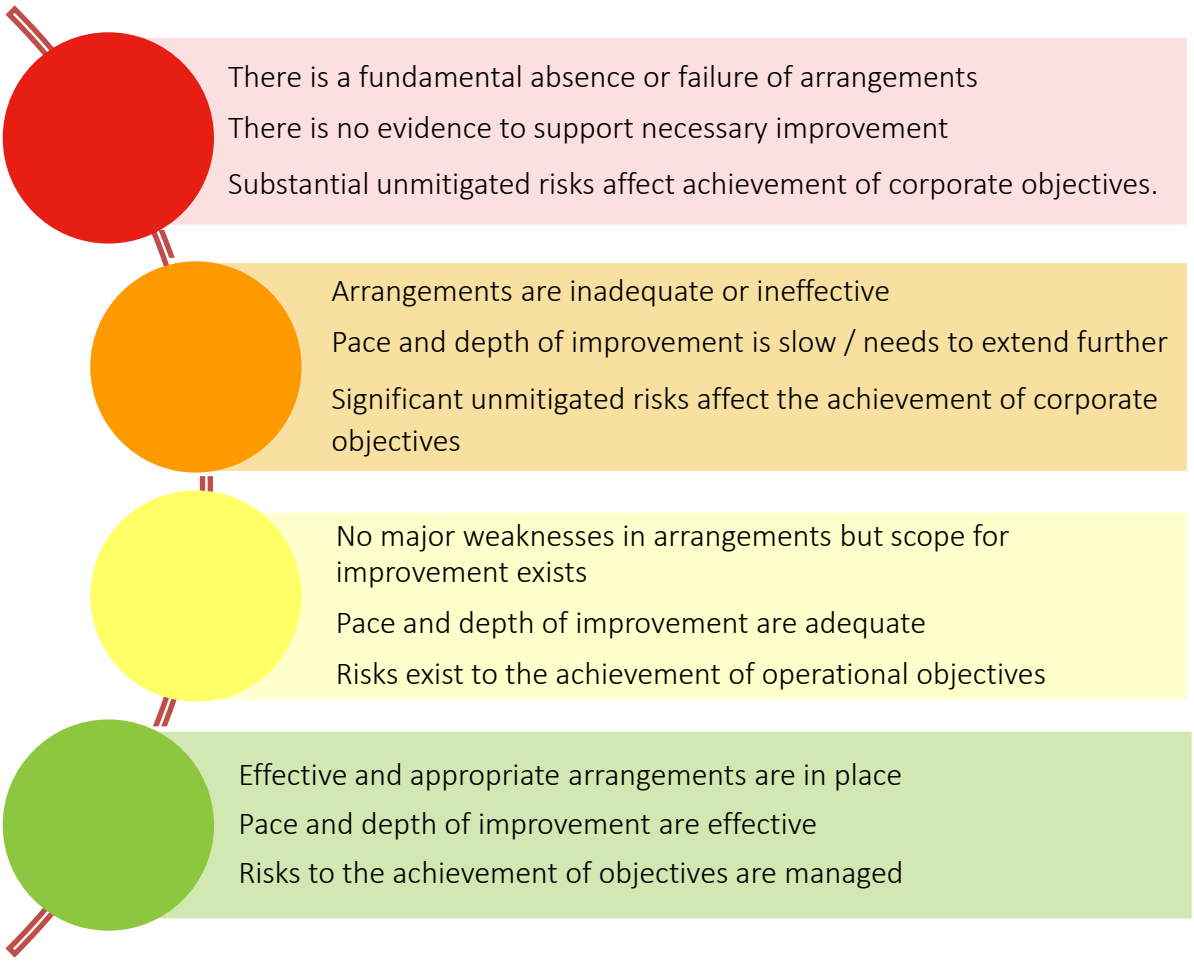
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Risks exist to the achievement of operational objectives Risks continue to exist over the medium to longer term financial position and the impact these have on the delivery of PHS's strategic objectives. PHS set a balanced 3-year financial plan with assumed increases on the baseline budget over that period. The assumptions applied are the same across the 3 years, excluding any one-off items. Over the coming years, management intend to further develop its approach to preparing its financial plans through the use of scenario planning, sensitivity analysis and zero based budgeting. A large proportion of PHS's funding from Scottish Government is non-recurring c.30%. While Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation, this uncertainty over recurring funding levels presents a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives. In developing its financial plan, PHS's focus remains on prioritisation. During 2024/25, and to inform the 2025/26 budget, PHS carried out an organisational-wide exercise on prioritisation and recognised the need to develop and embed an approach to continual prioritisation across the organisation The uncertainty over funding levels and key financial assumptions places PHS in a challenging position in developing financially sustainable plans to support the delivery of its strategic objectives.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place  PHS demonstrates effective leadership. Governance arrangements throughout the year were found to be satisfactory and appropriate. PHS progressed in the year against a number of actions across four different priorities in relation to its Blueprint for Good Governance improvement plan. The risk management processes have developed over the year, strengthening links between corporate, directorate and cross-organisational programmes.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** No major weaknesses in arrangements but scope for improvement exists
	PHS has adequate performance management arrangements in place. PHS is placing significant focus on the implementation of its programme and project architecture to support the delivery of its strategy. In May 2024 the Executive Team approved a three step portfolio development plan in relation to portfolio management and programme delivery. Work is ongoing to develop a formal organisational change programme (One PHS). The main challenges affecting PHS's ability to deliver against its annual delivery plan commitments are workforce challenges, reprioritisation, competing priorities and dependence on others (internal and external). These have impacted on PHS's ability to deliver its commitments within the specified timescales.

Definitions

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



There is a fundamental absence or failure of arrangements

There is no evidence to support necessary improvement

Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective

Pace and depth of improvement is slow / needs to extend further

Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to the achievement of objectives are managed

Introduction

Scope of audit

The annual external audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice. Code of Audit Practice 2021 | Audit Scotland

We outlined the scope of our audit in our External Audit Plan, which we presented to the Finance, Audit and Risk Committee (FARC) at the outset of our audit.

Responsibilities

Public Health Scotland (PHS) is responsible for preparing annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In

this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team or to Audit Scotland.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The annual report and accounts were considered by the Finance, Audit and Risk Committee (FARC) on 18 June 2025 and approved by the Board on 26 June 2025. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise PHS's functions. Our wider scope audit work considers the financial sustainability of PHS.	We reviewed the financial forecasts for 2025/26. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that PHS will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.

Opinion	Basis for opinion	Conclusions
Regularity of income and expenditure	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity. In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland: • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement	We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • The audited parts of the Remuneration and Staff Report have been properly prepared. • The information given in the performance report is consistent with the financial statements and has been properly prepared. • The information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Finance, Audit and Risk Committee in March 2025. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to PHS. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- An evaluation of PHS's internal control environment, including the IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of PHS's financial reporting and response to the audit.

Metric	Grading*	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements in line with our audit timetable.
Quality of working papers provided and adherence to timetable	Mature	Working papers were provided on time, complete, of good quality and we were able to start the audit on time as planned. Our audit requests and inquiries were generally turned around promptly and good quality responses were received.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We received full access to the finance team at NSS and key personnel at PHS. All audit queries and requests were responded to in a timely manner.
Quality and timeliness of the • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement As well as the quality and timeliness of supporting working papers for those statements.	Developing	The draft version of the annual report and accounts did not contain full remuneration report disclosures, and it took more time to get some explanations on our inquiries in this area.
Volume and magnitude of identified errors	Mature	We have not identified any errors.

*We assess as mature / developing / significant improvement required

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we 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. Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Financial statement	Yes	Assess design & implementation	Low	No adjustment
Fraud in revenue recognition	Assertion level	Yes	Assess design & implementation	Low	No adjustment
Fraud in non-pay expenditure recognition	Assertion level	Yes	Assess design & implementation	Low	No adjustment

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
Significant risk description	Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. This was considered to be a significant risk and Key Audit Matter for the audit. **Risk of material misstatement**: Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documented our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysed the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Tested high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to

Risk area	Management override of controls
	ensure approval has been undertaken in line with PHS's journals policy. • Gained an understanding of the key accounting estimates and critical judgements made by management. We challenged assumptions and considered for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We did not identify any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue and expenditure recognition
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240. Having considered the nature of the revenue streams at PHS, we consider that the risk of fraud in revenue recognition can be rebutted in respect of Scottish Government funding due to a lack of incentive and opportunity to manipulate revenue of this nature, but cannot be rebutted on all other income streams due to presumption is that PHS could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. We consider the risk is in relation to occurrence of income. We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at PHS. We consider that the risk can be rebutted on pay expenditure but cannot be rebutted on non-pay expenditure as most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. On consideration of PHS's financial position throughout the year, we consider the risk is in relation to completeness of expenditure. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Revenue (occurrence): High Expenditure (completeness): High

Key risk area	Fraud in revenue and expenditure recognition
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. **Audit procedures** • Documented our understanding of PHS systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Evaluated PHS's accounting policies for recognition of income and expenditure and compliance with the FreM and NHS Accounts Manual. • Substantively tested material income and expenditure streams using analytical procedures and tests of detail (in the riskier areas).
Key observations	We identified no significant issues in testing revenue and expenditure. We gained sufficient assurance over the occurrence of revenue and completeness of expenditure recorded in the financial statements. We identified no indication of fraud in revenue and expenditure recognition.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of PHS and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for PHS's financial statements was £1.89million. On receipt of the 2024/25 unaudited financial statements, we reassessed materiality and updated materiality to £2.0million. We consider that our updated assessment has remained appropriate throughout our audit.

	£million
Overall materiality for the financial statements	2.0
Performance materiality (75% of materiality)	1.5
Trivial threshold	0.1
Materiality	Our assessment is made with reference to PHS's gross expenditure. We consider this to be the principal consideration for users of the financial statements when assessing financial performance. Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2024/25 unaudited annual report and accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures. For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material. For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both PHS and the counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.

Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

We have not identified any audit differences during the audit.

We identified disclosure and presentational adjustments during the audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Service auditor reports

PHS utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.

Shared service	Service assurance
National IT contract This contract covers the services provided by ATOS IT Services UK Limited.	NHS National Services Scotland (NSS) procures a service auditor report from PwC. PwC reported a qualified audit opinion in relation to review of access controls, no actual breaches were noted. We have considered the findings of the report, and additional assurances sought by management from the service provider and are satisfied that the findings do not represent a material risk to our audit approach or conclusions.
National Single Instance (NSI) eFinancials NHS Ayrshire & Arran provide the eFinancials service with the IT service delivery being provided via the 'National IT contract' including the Real Asset Management system on behalf of all Scottish Health Boards.	NHS Ayrshire and Arran procure a service auditor report from BDO. The service auditor report highlighted no critical or significant risk findings and reported an unqualified opinion.
Provision of payroll services National Services Scotland (NSS) provide payroll services to a number of health bodies, including Public Health Scotland.	NHS National Services Scotland (NSS) procures a service auditor report from PWC. PWC reported that six exceptions were identified and responded to resulting in a minor qualification in the service audit opinion, not an adverse opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no other significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting, in addition to those reflected in this report.
Prior year adjustments identified	There were no prior year adjustments identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by PHS.

The accounting policies, which are disclosed in the financial statements, are in line with the NHS Accounts Manual and are considered appropriate.

Presentation and disclosures

There are no significant financial statements disclosures that we consider should be brought to the Board's attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

We have not determined any of the accounting estimates to be key to the overall financial statements.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Finance, Audit and Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting PHS. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We presented the final letter of representation to the Board to sign at the same time as the financial statements are approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

Wider scope of public audit

Public sector audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the financial statements to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. We consider the arrangements put in place by the Accountable Officer to meet their Best Value obligations through our risk-based wider scope audit work. Based on the findings set out in this section we are satisfied that PHS has organisational arrangements in place to secure Best Value.

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Auditor judgement

Effective and appropriate arrangements are in place

Financial performance 2024/25

The Scottish Government requires NHS Boards to meet three key financial targets:

- A Revenue Resource Limit (RRL)
- A Capital Resource Limit (CRL)
- A cash requirement

All key financial targets were met in 2024/25. PHS made a saving against its core revenue resource limit of £143,000.

NHS Boards returned to a three-year financial planning cycle from 2023/24. Boards can manage small under/overspends (within a 1% tolerance) across a three-year period. PHS outturn was within these tolerance levels in 2024/25.

Performance against resource limits 2024/25

Financial target	Limit £000	Actual £000	Variance (Deficit)/ Surplus £000
Core revenue resource limit (RRL)	92,397	92,254	143
Non-core revenue resource limit	2,140	2,140	-
Total RRL	**94,537**	**94,394**	**143**
Core capital resource limit (CRL)	4,148	4,148	-
Non-core capital resource limit	188	188	-
Cash requirement	94,633	94,633	-

Source: Annual Report and Accounts 2024/25

Revenue financial outturn

A final total revenue resource limit of £94.5million was provided by Scottish Government Health and Social Care Directorate. This comprised a recurring baseline funding of £71.6million to support operational activities and additional funding of £22.9million for specific programmes and services. PHS also received income from NHS Health Boards, NHS Non-Scottish Bodies, Other Public Sector bodies and third parties for the delivery of services. Income from these bodies totalled £7.3million in 2024/25.

We noted an improvement of the allocation of the funding this year with over 90% allocations finalised at quarter three. At the same time, there were some last minute changes applied by the Scottish Government in quarter four of 2024/25. In the last quarter report for 2024/25, management reported whilst all forecast additional allocations were ultimately received in support of delivering a balanced revenue outturn, PHS also noted a 'disconnect' between PHS monitoring process and communication on final funding from the Scottish Government.

Efficiency savings

At the outset PHS set a balanced budget, predicated on the achievement of £5.5million of savings. PHS achieved its savings target in the year.

Savings target £m	Savings achieved £m	Recurring £m	Non-recurring £m	Non cash releasing savings £m
5.5	5.5	4.5	1.0	Nil

Source: PHS finance monitoring report

PHS achieved savings through the removal of establishment posts and reduction of estates costs in both Glasgow and Edinburgh.

The Executive Team (ET) approved only critical posts. This has significantly decreased the number of vacancies advertised. Estates savings were delivered through alternative office space costs and a reduction in its dilapidations provision.

The Finance, Audit and Risk Committee (FARC) requested more detail on the savings plan so that appropriate scrutiny can be applied in relation to the progress made towards achieving CRES savings targets. Going forward, further detail on the 2025/26 savings plan will be provided to the FARC within the finance monitoring reports.

Capital financial outturn

PHS manages capital projects which mainly relate to its core activity of maintaining and tracking data across Scotland to support analysis of the population health and decision making by the health bodies. These projects include databases, websites or other IT related systems.

PHS fully spent its capital budget allocation of £4.1million. This is an improvement on the previous years where the capital budgets were underspent. The core 2024/25 capital allocation was £1.1million, increased mainly to allow spend on its leased properties. A delay to PHS's move to its new office on Bothwell Street Glasgow has seen the project completion date move into 2025/26. Whilst this delay resulted in a reduction in the expenditure in the current year, there was an increase in total programme cost to £169k due to the requirement to retender mid fit out.

Financial management and budgetary control

PHS manages financial risk through monthly scrutiny of the financial position and forecast expenditure plans. NSS Finance meet with key budget holders, including directors, so that any changes are included in the detailed projections and that assumptions and risks are captured and managed. The Chief Officer Finance is a full member of PHS Executive Team and attends its meetings where the organisational financial position, risk and opportunity is reviewed and discussed.

Quarterly finance reports are presented to the FARC. The Board also receives quarterly financial updates. The Executive Team reviews financial performance every six weeks. Additional financial information has been developed and presented to the Executive Team in 2024/25.

Financial reporting

The FARC considers annual budget, financial plans and quarterly financial performance reports. Its role is to advise, scrutinise and provide assurance to the Board on the financial position. The FARC has been continuing to challenge the quality of the financial information in order enable appropriate scrutiny and understanding of PHS financial performance.

Last year we identified potential areas for inclusion in financial reports, which in our view, would further support FARC members in carrying out their role to scrutinise and challenge PHS's financial position during the year.

Financial reporting to FARC was revised in November 2024. Management has, overall, incorporated our suggestions into the revised financial reports.

Description	Observations
Budget monitoring	
Inclusion of movement from the original, approved budget with explanation for movements Inclusion of outturn for the period; along with forecast outturn for the year Detailed narrative to support variances The reports should be clear on the funding being returned/not returned to Scottish Government, reinvested or being internal budget adjustments	Year to date actuals and budgets for income and expenditure (split between pay and non-pay) are reported, together with RAG status. Forecast outturn for the period and year are reported. Additional allocation status is detailed between confirmed, outstanding and recurring and non-recurring, and baseline Narrative is provided to support variances.
Directorate financial position	
Consideration of reporting financial position at a directorate level	Management judged that reporting on expenditure and income at a higher level provides more appropriate information than splitting it across directorates. There are interdependencies between directorates which may complicate reporting on a directorate level. This may be revisited in the future.
Savings	
Levels of savings to be achieved should be clear between CRES, other savings, recurring, non-recurring. Narrative should detail reasons for not achieving savings in any area. Additional detail on the areas savings relate to.	CRES target and actual savings are reported with a RAG status. Commentary is included on the progress of delivering savings and areas they relate to.

Description	Observations
Presentational	
Use more charts and tables, instead of narrative, to make the financial performance clearer to the FARC and PHS members.	Tables are now used to present financial performance.

Capital budgetary control

Capital performance is regularly reported to the FARC. The FARC have asked for, and as of the first reporting cycle of 2025/26 will receive, individual project financial performance based on the breakdown presented as part of the 2025/26 budget proposal.

Robustness of capital forecasting was previously identified by management and internal audit as an area for improvement. Specific areas for improvement identified by the internal audit included:

- The design of key controls around planning, management and reporting.
- Streamlining the key processes around contracting.
- Prioritisation of capital projects, managing and reporting DaS performance.
- Certifying and verifying DaS charges and reporting over the progress of the various capital projects.
- The Digital and Data Strategic Oversight Group (D&DSOG) could be used to formally escalate delays and performance issues.
- Formally documenting standard operating procedures and establishing clear roles and responsibilities over the establishment, prioritisation, management and delivery of the capital plan.

Management has addressed the above recommendations during 2024/25 with one management action outstanding. This relates to documenting the standard operating procedures (SOP) that govern capital planning and project management within PHS. It is now anticipated that the SOP will be approved by July 2025.

Systems of internal control

We have evaluated PHS's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in PHS's accounting and internal control systems during our audit.

Internal audit

An effective internal audit service is an important element of a PHS's overall governance arrangements. PHS's internal audit service is provided by KPMG. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

Prevention and detection of fraud and irregularity

We found PHS's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

Regular updates on fraud related matters (including Counter Fraud Services updates), and the National Fraud Initiative (NFI) are presented to the Finance, Audit and Risk Committee.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error. The most recent NFI exercise commenced in 2024, with matches received for investigation in early 2025.

PHS engages well with the NFI exercise, and we have concluded that its arrangements with respect to NFI are satisfactory. PHS uploaded all relevant data for the 2024 NFI exercise by the timescale of 31 October 2024. PHS plans to review the matches during the summer to determine if further action is required.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether PHS is planning effectively to continue to deliver its services and the way in which they should be delivered.

Auditor judgement

Risks exist to the achievement of operational objectives

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability (extract from 2024/25 External Audit Plan)
Risks continue to exist over the medium to longer term financial position and the impact these have on the delivery of PHS's strategic objectives. As at quarter three, PHS secured approximately 91% of its expected funding allocations for 2024/25. A large proportion of PHS's funding from Scottish Government is non-recurring, although the Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation. This uncertainty over recurring funding levels poses a significant risk, in terms of both quantum and flexibility, in its ability to deliver its medium and long term strategic objectives. In addition, there is raising demand for public health services and expectation of flat cash budget settlements in the coming years. This will create further financial pressures on PHS. In developing its financial plan, PHS's focus is on prioritisation. This is in comparison to previous years where PHS has focussed on expansion and growth. In previous years PHS managed to deliver savings and continue delivery of its programmes at the same time without impact on the core activity or a need for prioritising or abandoning its programmes. The expected budgets, flat funding and other key financial assumptions will put PHS in a more challenging position and will require stronger arrangements to identify ways to prioritise its work. PHS forecasts that it will achieve a breakeven position over the three-year period 2025/26 to 2027/28. However, this is dependent on the implementation of a savings plan.
Our detailed findings on PHS's financial framework for achieving long term financial sustainability are set out below.

2026 –28 Financial Plan

PHS's 3-year financial plan (2025/26 to 2027/28) was submitted to the Scottish Government. PHS received approval from the Scottish Government on its financial plan in March 2025.

The Scottish Government approved the financial plan and provided feedback to PHS on its 2026-28 financial plan. The next steps outlined in the Scottish Government letter are:

- Review progress on delivery of PHS's savings plan.
- Discuss any emerging risks and mitigating actions being taken by the Board
- Discuss progress with the areas of focus set out in the revised 15 box grid.
- Engage and take proactive involvement in supporting national programmes as they develop in 2025/26.

Last year we recommended that the 3-year financial plan submitted to the Scottish Government is presented to the FARC and the Board for consideration and approval. This has been actioned, with the 2026-28 financial plan presented to both the FARC and the Board in March 2025.

The 2026-28 financial plan sets out a balanced position in all three years.

	2025/26 £m	2026/27 £m	2027/28 £m
Baseline	67.8	69.9	72.0
Additional allocation	28.6	28.0	27.7
Other income	5.8	5.6	5.6
Total income	**102.2**	**103.5**	**105.3**
Pay	77.9	80.7	82.9
Non-pay	22.9	22.8	22.4
Pay uplift reserve	1.4	-	-
Total expenditure	**102.2**	**103.5**	**105.3**

Source: 2025/26 Budget and Financial Plan

Key assumptions

The 2025/26 budget is based on the following assumptions:

- 3% increase to baseline (flat in the previous year), based on the Scottish Government announcement in December 2024.
- Pay to remain fully funded by the Scottish Government.
- Proportionate share of a recurring £10million National Board Financial Sustainability funding estimated at circa £0.6million.
- 2% vacancy saving.
- 60% of the National Insurance increase to be funded by the Scottish Government.
- 3% cash releasing efficiency savings (CRES).

PHS has also raised the need for flexibility around ringfenced funding to its sponsors in order to meet its priority expectations.

There is an increase in the formula capital allocation of 5% in 2025/26 following the Scottish Government budget announcement in December 2024. This has resulted in a PHS Capital Resource Limit of £1.6 million.

The assumptions applied in following two years are the same as those applied in 2025/26, excluding any one-off items. In a recent internal audit review 'Financial Sustainability', internal audit recommended that medium term forecasting should consider relevant key internal and external factors in more depth, key assumptions to be presented to the Board and the FARC and that rolling forward of the non pay budgets should be replaced by zero based budgeting. As a result, PHS plans to:

- Move to zero based budgeting and will develop a clear and comprehensive process for creating mid-term forecasts based on realistic assumptions, historical trends, foreseen challenges, and strategic ambitions.
- Include appropriate medium term financial forecast information within the financial reports presented to the Board and the FARC, including underlying assumptions.
- Implement a zero-based budgeting approach for non-pay costs in 2025-26, requiring individual business cases and supporting evidence to back-up the underlying budget assumptions.

Last year we recommended PHS apply scenario planning or sensitivity analysis over the assumptions applied. The use of scenarios and analysis of assumptions based on sound information will support the Board in making informed budget-related decisions. The focus in the year has been on improving the quality of the in-year performance reporting and this information is intended to support the delivery of medium to long term scenario planning. Work in this area is therefore ongoing. This work will also consider findings from the internal audit review on Financial Sustainability.

Savings

PHS is facing a number of challenges as reflected in its financial plan assumptions, including a requirement to identify savings of over £6million over the next three years, delivering a minimum of 3% of recurring cash releasing efficiency savings in each year and to continue delivery of its programmes.

Recurring savings plans in place for 2025/26 to deliver on the £2million target include accommodation savings and a reduction in agency and permanent removal of posts. The plans for pay related savings will initially deliver non-recurring savings with the challenge facing PHS of identifying and delivering on the permanent removal of posts.

	2025/26 £m
Savings required to achieve break even, of which:	**2.035**
Permanent workforce	1.745
Agency workforce	0.200
Office occupancy	0.090

Source: 2025 Budget and Financial Plan

Funding allocations

A large proportion of PHS's funding from Scottish Government remains non-recurring c.30%. While Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation, this uncertainty over recurring finding levels presents a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives.

PHS priorities management

In developing its financial plan, PHS's focus is on prioritisation. During 2024/25, and to inform the 2025/26 budget, PHS carried out an organisational-wide exercise on prioritisation. PHS held a number of Leadership Team meetings (extended Executive Team including all Heads of Service) and at least one all staff discussion dedicated to the topic. Between October and November 2024, all 22 cross-organisational programmes ranked, re-considered, and re-profiled their work, with the output reviewed by the Executive Team and management teams for individual directorates. Where appropriate this was also discussed with PHS sponsors.

Prioritisation of programmes will continue to be an area of focus for PHS for future years.

Vision, leadership and governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Auditor judgement

Effective and appropriate arrangements are in place

Vision

Public Health Scotland defines its vision as: "A Scotland where everybody thrives". This is underpinned by two objectives: improving life expectancy in Scotland and a reduction in life expectancy between the poorest and wealthiest people.

PHS's plans for 2022-2025 are described in its three-year Strategic Plan. This is underpinned by its Workforce Plan and Financial Plan.

The development of the new PHS Strategy 2025-30 was a priority during the year and a draft consultation document about the strategy was presented to the Board for feedback in May 2025. The next stages are to consult on the Strategy with other stakeholders and staff and to formally approve it in October 2025. The draft PHS Strategy 2025-30 is aligned with Scotland's Population Health Framework and the Services Renewal Framework. These Scotland wide frameworks are due to be published in 2025. PHS is one of the key stakeholders involved in development of these Scotland wide frameworks. The PHS draft Strategy also references the Public Service Reform Strategy to be published by the Scottish Government in the Summer 2025. The three high level aims listed in the draft Strategy are:

- Protecting health
- Protecting health through data and intelligence
- Improving health

In May 2024, the Board approved its Operating Plan covering the period from April 2024 to March 2027. As a jointly sponsored body, PHS's Operating Plan is agreed by Scottish Government and Convention of Scottish Local Authorities (COSLA). The Operating Plan incorporates feedback from its sponsors. PHS is also currently finalising its Annual Delivery Plan and updated Workforce strategy 2026-29.

Leadership

PHS demonstrates effective leadership.

PHS inherited a variety of systems and structures from its legacy bodies. Since its inception, PHS has developed its organisational structure and continued improving its systems, including its approach to programme and project management. During 2024/25 PHS progressed with the review of its governance arrangements against Blueprint for Good Governance.

Development of the Executive Team has enabled PHS to create a coherent team focused on delivering its vision and mission. There is also increased collaboration within the wider leadership group (executive team, heads of service and PHS consultants) to build the sense of joint strategic leadership more broadly. The leadership group is currently working on the delivery of the organisational changes to portfolio, programme and project management, and business services which will be important in how PHS optimizes its work.

Since November 2023 the Executive Team has been working on its collective development. PHS is also developing a Leadership and Development Strategy for the whole of PHS. General leadership development is supported by its Service Level Agreement (SLA) with NSS.

Board and senior management changes in 2024/25

At the Board level, four non-executive directors were reappointed during the year (Jane-Claire Judson, Professor Rak Nandwani, Steve Barron, and Michael Craig (Employee Director). One new non-executive director was appointed (Cllr Nairn Angus-McDonald). The chair of the Board will step down in the coming year and arrangements are in place to appoint a new chair.

There has been one change to its Executive Team with the Director of Public Health Science and Medical Director leaving in March 2025. His replacement is expected to take up the post in June. In addition, Michael Kellet (Director of Strategy, Governance and Performance), previously appointed on a secondment basis became a permanent employee of PHS in January 2025.

Governance arrangements

The Board is responsible for ensuring the effective governance of PHS. In driving forward the strategic direction of PHS and ensuring the governance framework is operating as intended, the Board continues to be supported by four committees:

- Finance, Audit and Risk Committee (FARC);
- Staff Governance Committee;
- Remuneration Committee; and

- Population Health and Clinical Governance Committee.

Board and Committee meetings

Throughout 2024/25, the Board has maintained all aspects of board governance, including its regular schedule of board and committee meetings.

Through our attendance at the FARC and review of committee papers we are satisfied that there continues to be appropriate scrutiny and challenge through the year.

Blueprint for Good Governance

The refreshed Blueprint for Good Governance (second edition) was published by the Scottish Government in December 2022. The second edition of the Blueprint builds on the original guidance issued by Scottish Government in 2019 and sets out the methodology for assessing the effectiveness of the healthcare governance system against the principles of good governance.

The Blueprint sets an expectation that each Board's governance arrangements will be subject to a systematic evaluation annually via a self-assessment exercise and an external evaluation once every three years. In response the Board:

- Undertook the self-assessment exercise in December 2023 where all Board members completed the survey.
- Submitted a PHS Improvement Plan to Scottish Government in March 2024.
- Performed a series of facilitated events to support its discussions and decision making, establishing four, high impact priorities for 2024/25.

Progress has been made against the actions and a further update will be provided to the Board later in the year, with the completion planned by 31 March 2026.

In August 2024 the Board approved its first PHS Framework Agreement setting out the sponsorship relationship between the Scottish Government, Convention of Scottish Local Authorities (COSLA) and PHS. The framework was drafted by the Scottish Government officials with comments from PHS and COSLA. The framework agreement is based on a model developed by the Scottish Government and makes a number of references to the Blueprint for Good Governance.

The FARC performed a self-assessment of effectiveness in August 2023 and concluded that it functions well overall and is seen as the most mature committee at PHS. The next re-assessment is expected to be performed in 2025 and as a part of the annual assurance report. The results of all PHS committees' self-assessments are to be reported to the Board by November 2025.

Risk management arrangements

The FARC provides oversight and scrutiny of risk management activity. The FARC has a standing agenda item to review risk management across the organisation, detailing improvements being made and the key risks for the organisation. This provides the FARC with assurance that risk management is operating effectively and that there is integration between organisational risks and audit activity.

PHS Committees also receive regular risk update reports. Each committee reviews and challenges business, clinical, reputational and workforce risks at each meeting.

The Board receives risk update reports every quarter. The reports include details of risk management improvements, the risks on the corporate risk register and detailed information on any high scoring corporate risks being addressed. This gives the Board the opportunity to review and challenge risk management processes and the key risks facing the organisation. The Board also reviews and approves PHS's appetite to risk annually.

PHS risks are a standing agenda on its quarterly performance review meetings with its sponsors in Scottish Government and COSLA.

The Risk Management Approach was reviewed by the FARC in August 2024 and approved by the Board in October 2024. There were a number of changes incorporated on operational level and included clearer linking the risks to cross-organisational programmes, introduction of monthly directorate risk reports and clarification of guidance in relation to the risk management.

A risk workshop, which included a full assessment of the corporate risks, took place in June 2025 and an updated corporate risk register will be presented to the FARC meeting in August. As PHS is currently developing a new strategy, it is using the consultation and evidence from the development of the Strategy to consider any revisions to current corporate risks and the development of any new corporate risks.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement

Risks exist to the achievement of operational objectives

Performance Management Arrangements

PHS published its Strategic plan 2022 to 2025 "*A Scotland where everybody thrives: Public Health Scotland's strategic plan 2022 to 2025*" in November 2022.

The plan sets out the organisation's ambitions over a three year period and includes the actions and impact it aims to deliver in line with its agreed missions:

- Prevent Disease
- Prolong Healthy Life
- Promote Healthy and Wellbeing.

The plan identifies the organisation's top priorities and links these to the 11 national outcome indicators it has identified as being key to improving life expectancy and reducing health inequalities.

To support the delivery of its work, PHS has developed a framework, a portfolio of cross-organisational programmes, to manage the internal and external activity it carries out to deliver its Strategic Plan:

- Transforming Scotland (external focus): 15 cross-organisational programmes that will help Scotland thrive by preventing disease, prolonging healthy life and promote health and well-being.
- Transforming PHS (internal focus): seven cross-organisational programmes that will enable its people and organisation to thrive while delivering its strategic objectives.

Performance management framework

Quarterly performance reports are presented to the Board. These reports set out:

- Public Health Scotland's performance against the outcomes it is seeking to influence (as set out in its Strategic Plan).

- Highlights and challenges the organisation has encountered.
- The organisation's performance against a set of key indicators.

Through review of Board papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

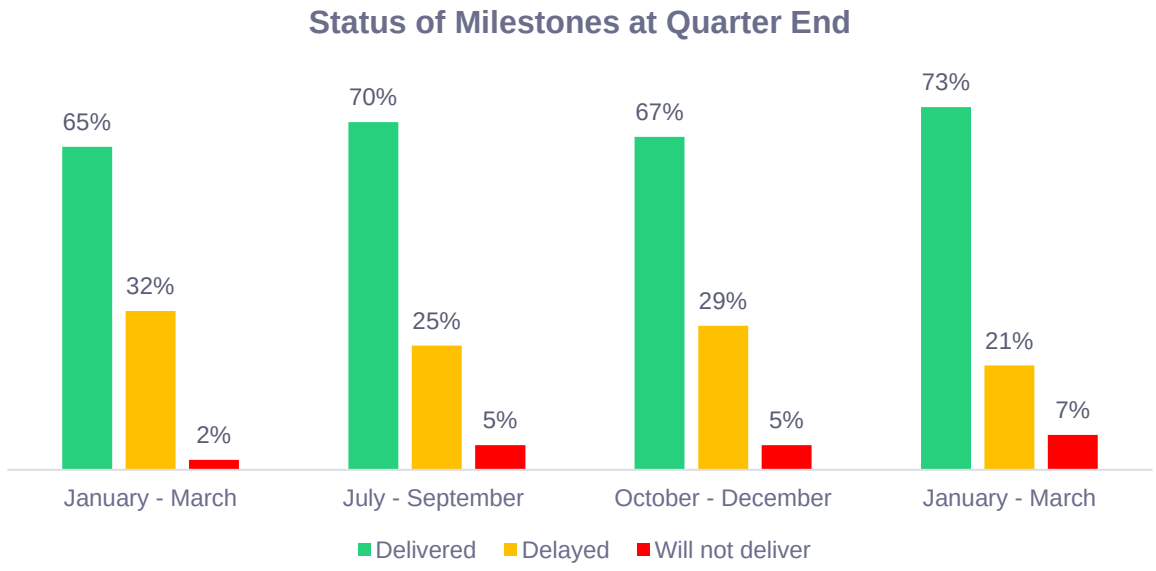
Performance in 2024/25

PHS's vision "A Scotland where everybody thrives" is underpinned by two objectives: improving life expectancy in Scotland and a reduction in life expectancy between the poorest and wealthiest people. In its quarterly performance report, January 2025 to March 2025, and in the draft 2024/25 annual audit report, the Board noted:

- Life expectancy has improved for the first time since the COVID-19 pandemic. The average life expectancy for 2021-2023 is 76.8 years for males and 80.8 years for females. PHS recognises the positive short-term trend, but observed that the medium-term view is more nuanced. Life expectancy in Scotland is still the lowest in Western Europe and while this has improved for decades, progress stalled between 2012-14.
- Life expectancy gaps have widened since 2011. In 2021, death rates were four times higher in the most deprived areas compared to the least deprived.

Progress against the Annual Delivery Plan

The performance reports as presented quarterly to the Board include progress against its annual delivery plan.



Source: Annual Report and Accounts 2024/25

The delivery and delayed percentages rates remain consistent with the prior year. The 'Will not deliver' percentage noted an average increase of 1-2 percentage points compared to the previous year.

On review of the PHS quarterly performance reports, we noted that these do not give narrative over the consequences on either the delay or non-delivery of milestones within the Annual Delivery Plan.

Recommendation 2

The main issue affecting PHS's ability to deliver against its annual delivery plan commitments are workforce challenges, reprioritisation, competing priorities and dependence on others (internal and external). These have impacted on PHS's ability to deliver its commitments within the specified timescales. This position is consistent with prior years.

In prior years the funding available to PHS allowed it to pursue all relevant programmes without much need of prioritising or responding to a reduction in income / funding. Management is aware that the future funding package might not provide the same level of flexibility as in the past. In May 2024 the Executive Team approved a three step portfolio development plan in relation to portfolio management and programme delivery.

Work is ongoing to develop a formal organisational change programme (One PHS). A formal Portfolio, Programme and Project Office (P3M) will be established from October 2025. PHS has been progressing with changes in this area of which the key elements are included below:

- Performed work to gain understanding of staff roles and support and training needs, including the creation of a central repository of information to support project and programme staff with processes, procedures, tools, training, and a community of practice;
- PHS developed a project register and a categorisation matrix to improve visibility and classification of projects across PHS.
- A review of the current set of programmes is planned for July-November, which will result in Portfolio 2.0 for the following business year. This runs in parallel with the PHS strategy 2025 design and will help deliver the strategy.
- PHS are developing a dashboard which will be released for Management Purposes this summer.

Audit Scotland national performance audits

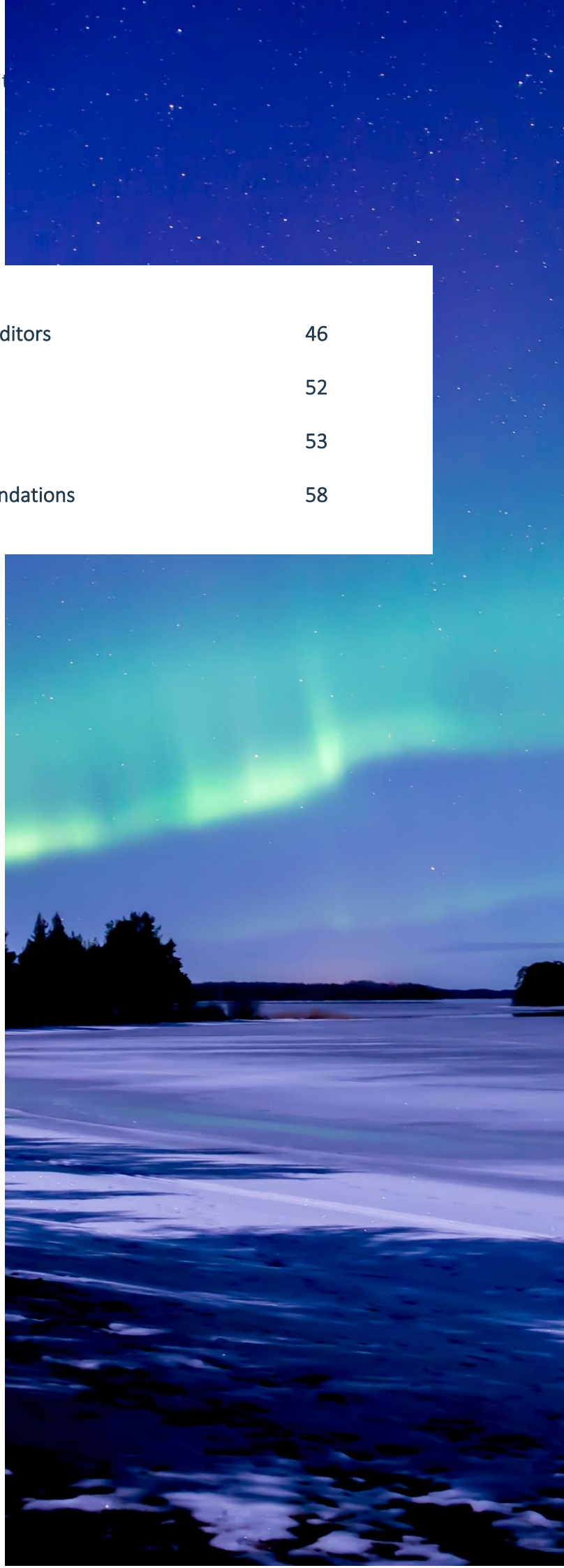
Audit Scotland undertakes national performance audits on issues affecting the public sector. During the year, we have considered PHS's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We have also

considered the extent to which PHS uses the national performance reports as a means to help improve performance at the local level or to inform PHSs delivery of its strategic objectives.

Audit Scotland national performance reports are considered by management and also when working with the Scottish Government in contributing to the work on national strategies or feeding into Audit Scotland's national performance reports. However, we would also encourage PHS to consider including Audit Scotland's national performance reports on health sector to committee agendas to enrich and support their decision making. These reports bring attention to the national matters for the sector and could help with identifying any issues to be addressed directly by PHS. Another area where these could be helpful is consideration of health sector issues which could impact strategy development at PHS and allow a horizon scanning by PHS. The most recent report NHS in Scotland: Spotlight in governance was published in May 2025.

Recommendation 3

Appendices



Appendix 1: Responsibilities of Boards and Auditors

Board responsibilities

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	Board responsibilities
Corporate governance	The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of the financial position of the Board and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Board and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting

Area	Board responsibilities
	framework. The relevant information should be communicated clearly and concisely. The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The Board is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Board and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at Quality of public audit in Scotland: Annual report 2025

Independence and ethics

The Ethical Standards and ISA (UK) 260 require us to report full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical requirements and further to our external audit plan issued confirming audit arrangements we confirm that there are no further facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw attention to. We consider an objective, reasonable and informed third party would take the same view.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Contingent fees: No contingent fee arrangements are in place for any services provided

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff

Relationships: We have no other relationships with the Board, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 March 2025 was three years.

Audit fees

The total fees charged to the Board for the provision of services in 2024/25 were as follows. Prior year charges are also shown for comparative purposes:

	2024/25	2023/24
Auditor remuneration (expected fee level)	£74,050	£71,060
Pooled costs	£7,670	£8,590
Contribution to PABV costs	-	-
Sectoral cap adjustment	£25,330	£25,350
Total audit fee	**£107,050**	**£105,000**

Appendix 2: Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. We have not identified audit adjustments during the audit.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Board.

Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Remuneration Report – changes made to disclosures in the Remuneration Report
2.	Accounting policies – minor updates to accounting policies
3.	A number of other minor changes were made in the financial statements.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2024/25 audit. The matters reported are limited to issues we have identified during the course of our audit which we feel are of sufficient importance to merit reporting to you under the auditing standards or Audit Scotland's Code of Audit Practice.

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Intangible assets useful lives	Other deficiency
Observation	We have identified that over 70% of intangible assets still used by PHS are kept at nil net book value. These should be subject to regular reviews.
Implication	Assets useful lives, valuation and amortisation rates might not be appropriate.
Recommendation	We recommend PHS reviews the intangible assets useful lives and its accounting policies in that matter.
Management response	We will review how existing assessments of intangible assets can be leveraged to consider this recommendation with particular consideration of materiality and potential impacts on SG funding requirements. **Responsible officer:** Associate Director: Finance Operations **Implementation date:** 31 March 2026

2. Performance reporting	Other observation
Observation	On review of the PHS quarterly performance reports, we noted that these do not give narrative over the consequences on either the delay or non-delivery of milestones within the Annual Delivery Plan.
Implication	The Board may not have full information to enable it to scrutinize and make informed decisions.
Recommendation	Management should consider enhancing the information contained within performance reports to include detail of the consequences on either the delay or non-delivery of milestones.
Management response	PHS will consider and test ways to enhance the analysis of the consequences of delays or non-delivery of quarterly milestones. **Responsible officer:** Director Strategy, Governance and Performance **Implementation date:** 31 March 2026

3. Audit Scotland's national performance reports	Other observation
Observation	Audit Scotland national performance reports are considered by management and also when working with the Scottish Government in contributing to the work on national strategies or feeding into Audit Scotland's national performance reports. However, we would also encourage PHS to consider including Audit Scotland's national performance reports on health sector to committee agendas to enrich and support their decision making.
Implication	The Board might not have a comprehensive sight of strategic and national issues impacting PHS work.
Recommendation	We recommend PHS adds those national performance reports to the agenda of the relevant committee.
Management response	PHS will consider the range of Audit Scotland's national reports and identify the relevant forum and mechanism for presentation and discussion at committee and Board level. **Responsible officer:** Director Strategy, Governance and Performance **Implementation date:** 31 March 2026

4. Procedures over Settlement, Severance, Early Retirement, Redundancy	Other deficiency
Observation	PHS has to comply with a number of policy documents when considering and approving exit packages, redundancy payments, voluntary schemes and related payments. These policies include PHS Framework Agreement, Scottish Public Finance Manual (SPFM) and PIN policies. We identified some circumstances where there was no evidence of consistently applying these by PHS.
Implication	The Board may not fully comply with all required processes, resulting in a potential breach in regularity of transactions.
Recommendation	We recommend that PHS puts processes in place to ensure the policies are appropriately considered to ensure compliance with them.
Management response	PHS is undertaking a review to ensure that its implementation of policies in relation to these payments is consistent with the relevant policies and other boards application of the policies. **Responsible officer:** Chief Officer People **Implementation date:** 31 December 2025

Appendix 4: Follow up of prior year recommendations

As part of our audit work we have followed up on control weaknesses and recommendations either raised in last year's Annual Audit Report or carried forward from prior years.

1.	Financial management reporting
Recommendation	FARC has been challenging the quality of the financial information in order enable appropriate scrutiny and understanding of PHS financial performance. The newly appointed Chief Officer – Finance has been working with FARC to develop the financial information presented to committee. Gradual improvements have been made to date. Management should continue to develop the financial reports presented to FARC and the Board.
Implementation date	21 August 2024
Complete	We are satisfied that this has been implemented as noted in the financial management section of our report.

2.	Scenario planning / sensitivity analysis
Recommendation	PHS is facing a number of challenges as reflected in its financial plan assumptions. Through our review of PHS financial plan we have not seen evidence of scenario planning or sensitivity analysis over the assumptions applied. The use of scenarios and analysis of assumptions based on sound information supports the Board in making informed budget-related decisions. Management should develop and present scenario plans and sensitivity analysis to FARC to enable informed challenge and decision making by members.
Implementation date	31 January 2026
Ongoing	PHS focused on improving the quality and consistency of planning information gathered from across the organisation. Whilst some scenario planning has been incorporated into the financial planning process for 2024-25, further improvements are planned through 2025-26.

3.	Financial governance
Recommendation	PHS's 3-year financial plan (2024/25 to 2026/27) was submitted to the Scottish Government. PHS received approval from Scottish Government on its financial plan in April 2024. We note however the financial plan was not presented to FARC or the Board. The financial plan should be presented to FARC and the Board to enable informed decision making.
Implementation date	March 2025
Complete	The 2025/26 budget and financial plan was presented to FARC and Board at the beginning of 2025.

4.	Cyber awareness training
Recommendation	There is regular training in place for cyber security related topics. Completion rates for this training however is below 50%. As this training is not mandatory, it does not follow an escalation process. Cyber Security Awareness is important to help staff recognise potential threats, and take appropriate actions. This can help embed a culture of security compliance within PHS, and therefore, help reduce the risks associated with cyber attacks. PHS should make the cyber security training mandatory so that an escalation process can be in place and can be used to increase the completion rate.
Implementation date	31 December 2024
Complete	The Cyber Awareness module called “Stay safe online” on Turas Learn is now a mandatory requirement for PHS staff. Compliance rates with the module will be monitored and reported along with the existing mandatory training modules.

Moving forward with confidence

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