

# NHS National Services Scotland

Annual Audit Plan



Prepared for NHS National Services Scotland

March 2024

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# Introduction

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## Summary of planned audit work

1. This summarises the work plan for the 2023/24 external audit of NHS National Service Scotland (NHS NSS). The main elements include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement and the Remuneration Report and Staff Report
- consideration of arrangements in relation to wider scope areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Annual Audit Report setting out conclusions on all aspects of the audit.

2. There has been one change to the audit team as we move into the second year of our audit appointment. Carole Grant remains as the appointed auditor and Grace Symes has joined us as the lead Senior Auditor on the audit.

## Respective responsibilities of the auditor and NHS NSS

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and NHS NSS. Key responsibilities are summarised below.

### Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at NHS NSS. In doing this, we aim to support improvement and accountability.

### NHS NSS responsibilities

6. NHS NSS is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

**7.** NHS NSS has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety and regularity that enables it to deliver its objectives.

### **Adding Value**

**8.** We aim to add value by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will attend committee and Board meetings and recommend and encourage good practice. In so doing, we will help NHS NSS promote improved standards of governance, better management and decision making and more effective use of resources.

# Annual report and accounts

## Introduction

**9.** The annual report and accounts are an essential part of demonstrating the NHS NSS' stewardship of resources and its performance in the use of those resources.

**10.** As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report. Our audit work is conducted in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

**11.** My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**13.** We assess materiality at different levels and the materiality values for NHS NSS are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for NHS NSS

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS NSS' operations. For the year ended 31 March 2024, we have set our materiality at 1 per cent of gross expenditure based on the 2022/23 audited financial statements.	£11 million

Materiality	Amount
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.	£7.15 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** Our risk assessment draws on our cumulative knowledge of NHS NSS, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**15.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the audit. Where such changes occur, we will advise management and, where relevant, report them to those charged with governance.

**16.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the risks, management's sources of assurance and the further audit procedures we plan to perform to gain assurance.

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's</p>	Owing to the nature of this risk, assurances from management are not applicable	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>		<ul style="list-style-type: none"> <li>• Test journal entries and other adjustments during the financial year, at the year-end and post-closing entries. Focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focused testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Estimation in the valuation of land and buildings</b></p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes can have a material impact on the valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. NHS NSS must ensure that its valuation process for land and buildings adequately reflects changes in the property market so that the financial statements are not materially misstated.</p>	<ul style="list-style-type: none"> <li>• NHS NSS appoints a suitably qualified and experienced professional to provide the valuation of land and building (District Valuer)</li> <li>• Buildings are reviewed annually using a desktop valuation and a full site review is carried out on a rotation basis.</li> <li>• Both valuations are based on the latest indices and professional judgement.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the information provided to the external valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Assess the approach NHS NSS has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.</li> <li>• Assess the adequacy of the NHS NSS' disclosures regarding the assumptions in relation to the valuation of land and buildings.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>3. Risk of material misstatement due to fraud in expenditure</b></p> <p>Practice Note 10 extends the requirements of ISA (UK) 240 to include consideration of fraud in expenditure for public bodies.</p> <p>This is a significant risk for NHS NSS due to the complexity and number of expenditure streams, including the procurement and contracting NHS NSS undertakes on behalf of other NHS Boards.</p>	<ul style="list-style-type: none"> <li>NHS NSS has extensive professional and legal expertise, which is utilised when entering into procurement contracts.</li> <li>SFIs set out the financial governance arrangements for the authorisation of procurement contracts.</li> <li>NHS NSS has robust financial controls in place to reduce the risk of fraudulent payments.</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures over expenditure streams to support detailed testing.</li> <li>Focused testing of payments made under contracts.</li> <li>Substantive testing of expenditure transactions across the financial year.</li> <li>Substantive testing of post-year end payments to confirm they have been recorded in the correct financial year.</li> </ul>
<p><b>4. Estimation in the valuation of inventories</b></p> <p>ISA (UK) 501 defines the specific audit procedures required where inventory is material.</p> <p>As NHS NSS procures and holds inventories for NHS in Scotland this is a significant risk due to its high value, susceptibility to fraud and complexity in the valuation methods.</p>	<ul style="list-style-type: none"> <li>NHS NSS has strong inventory controls in place to ensure stock are physically secure, appropriately maintained and correctly valued.</li> <li>Continuous stock counts are in place to ensure that all stock is corrected periodically throughout the financial year.</li> <li>Detailed reviews are carried out of stock lines held to ensure stock provision levels are appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over inventory management and counts.</li> <li>Attend physical inventory counts to observe procedures, assess the accuracy of instructions and test the reliability of records.</li> <li>Agree stock balances at 31 March 2024 to control sheets prepared during inventory counts.</li> <li>Substantive testing of inventory items by tracing them back to purchase invoices to verify the accuracy of valuations.</li> <li>Assess the adequacy of provisions for obsolete inventory by reviewing management's inventory analysis.</li> <li>Review the inventory write offs including the approval process.</li> </ul>

Source: Audit Scotland

**17.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition



of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for NHS NSS as most of the funding is received from the Scottish Government and other public sector bodies, is clearly communicated and can be readily agreed to third party confirmations.

**18.** We have concluded that there is limited opportunity to manipulate the recognition of income in the financial statements. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**19.** As part of our assessment of audit risks, we have identified another area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude, we do not consider this to be a significant risk. We will keep this area under review as our audit progresses.

**20.** The area of specific audit focus relates to the accounting for service concession arrangements. The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements. NHS NSS must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments and ensure that the financial statements accurately reflect the impact of the revised IFRS16 accounting arrangements.

## Regularity

**21.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

**22.** We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

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# Wider Scope and Best Value

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## Introduction

**23.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to conclude on the effectiveness and appropriateness of the arrangements in place for each area.

**24.** Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks we consider challenges which are impacting the public sector as a whole. In summary we will be considering:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error, and other irregularities. We will review the service audit arrangements and, where appropriate, share this with all other appointed auditors to ensure efficiency in the audit process.
- **Financial sustainability** – we will look ahead to consider whether NHS NSS is planning effectively to continue to deliver services. We will comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy and priorities adopted by NHS NSS. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS NSS demonstrates economy, efficiency and effectiveness through the use of financial and other resources, including the arrangements that support the delivery of national programmes.

## Duty of Best Value

**25.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS NSS.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**26.** Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest, including those detailed in [Exhibit 3](#), will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**27.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**28.** We will provide an Independent Auditor's Report to NHS NSS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will also provide NHS NSS and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

**29.** [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. We will issue our outputs in sufficient time to enable scrutiny by the Audit and Risk Committee at the meeting dates detailed below.

## Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2024	14/03/2024
Independent Auditor's Report	30/06/2024*	20/06/2024
Annual Audit Report	30/06/2024*	20/06/2024

Source: Audit Scotland

\* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Risk Committee to enable them to be considered.



## Timetable

**30.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a timetable for the audit at [Exhibit 4](#).

**31.** We will continue to work closely with management to identify the most efficient approach and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with officers over the course of the audit.

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### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Receipt of the unaudited annual report and accounts with complete working papers package	7 May 2024
Consideration of the unaudited annual report and accounts by those charged with governance	16 May 2024
Issue draft annual audit report for clearance discussions	4 June 2024
Audit clearance meeting with the Director of Finance	10 June 2024
Agreement of audited and unsigned annual report and accounts	12 June 2024
Issue of Annual Audit Report, Independent Auditor's Report and Letter of Representation to those charged with governance.	13 June 2024
Signed Independent Auditor's Report	28 June 2024

Source: Audit Scotland

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## Audit fee

**32.** In determining the audit fee, we have taken account of the risk exposure of NHS NSS and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is set at the baseline level of £248,880.

**33.** The audit fee assumes that NHS NSS has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**34.** It is the responsibility of NHS NSS to establish adequate internal audit arrangements. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities.

**35.** While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities. In particular we will consider the findings from the reviews of payroll, cyber security and ATOS contract management.

## Independence and objectivity

**36.** I am independent of NHS NSS 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.

**37.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**38.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of NHS NSS.

## Audit Quality

**39.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**40.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 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. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing

arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

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

**42.** 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 regularly monitored by Audit Scotland's Quality and Ethics Committee.

**43.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

# NHS National Services Scotland

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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