

Public Health Scotland

2023/24 Annual Audit Report to the Board and the Auditor General for Scotland

June 2024



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Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
	PHS had appropriate administrative processes in place to prepare the annual report and accounts and the supporting working papers.
	We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.
Key audit findings	The accounting policies used to prepare the financial statements are considered appropriate.
	The accounting estimates and judgements used in the preparation of the financial statements are considered appropriate.
	All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We have not identified any material misstatements. No adjustments have been made to the financial statements. The Remuneration Report has been adjusted to reflect correct calculation of pension values.
	We identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.
Accounting systems	We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess PHS's processes and internal controls relating to the financial reporting process.
and internal controls	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 include these in this report. No material weaknesses or significant deficiencies were noted.



The wider scope of public audit

	Auditor judgement
Financial Management	No major weaknesses in arrangements but scope for improvement exists
Financial	
management is	The Board met its key financial targets in the year, delivering
concerned with	an underspend against its revenue resource limit and its capital
financial capacity,	resource limit.
sound budgetary	Appropriate financial management arrangements were in place
processes and	to achieve the key financial targets.
whether the control	, ,
environment and	The quality of financial information and reporting presented to
internal controls	the Board does however requirement improvement to enable
are operating	effective scrutiny, challenge and decision making.
effectively.	Management is working on developing the financial reporting
	as presented to the Board.

Auditor judgement

Risks exist to the achievement of operational objectives

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. In developing its financial plan, the Board's focus is on prioritisation. This is in comparison to previous years where the Board has focussed on expansion and growth. In previous years the Board 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 more challenging position and will require stronger arrangements to identify ways to prioritise its work.

The Board set a balance budget and financial plan for 2024/25.

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 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.



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 continues to demonstrate effective leadership.

Governance arrangements throughout the year were found to be satisfactory and appropriate.

The Board's Blueprint for Good Governance improvement plan was formally approved by the Board in the March 2024. The Board identified a number of actions across four different priorities which will be progressed over the coming year.

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 achievement of operational objectives

PHS has appropriate performance management arrangements in place.

The main challenge affecting PHS's ability to deliver against its annual delivery plan commitments are workforce challenges. These have impacted on PHS's ability to deliver its commitments within the specified timescales.

PHS is placing significant focus on the implementation of its programme and project architecture to support the delivery of its strategy.

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.



Definition

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 П 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

The annual 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 the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Finance, Audit and Risk Committee at the outset of our audit. We presented an update to the risks outlined in that plan to management and the Finance, Audit and Risk Committee in March 2024.

Responsibilities

PHS is responsible for preparing an annual report and accounts which show a true and fair view 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.

Openness and transparency

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



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 on 19 June 2024 and approved by the Board on 27 June 2024. 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 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that PHS will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.
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 was incurred or applied in accordance with applicable enactments and



Opinion	Basis for opinion	Conclusions
		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:	We have no matters to report.
	 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.	

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 January 2024. We presented an update to the risks outlined in that plan to management and the Finance, Audit and Risk Committee in March 2024. 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.

We carried out a further review of our risk assessment following receipt of the unaudited annual report and accounts. Our risk assessment remained unchanged however we refined our approach to testing the following significant risk areas:

- Fraud in revenue recognition risk was narrowed to the occurrence of revenue.
- Risk of fraud in non-pay expenditure and accruals was narrowed to the completeness of expenditure.



During the course of our audit we discussed this with management and the Chair and Vice Chair of the Finance, Audit and Risk Committee.

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 the Board'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 the financial reporting and response to the audit.

Metric	Grading*	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable.
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 had 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; and 	Mature	We received the audited part of the Remuneration and Staff Report late. This was due to delays with SPPA providing CETV information and this issue has impacted all NHS Scotland Boards. We are satisfied that PHS did all that they could to mitigate this delay.



Metric	Grading*	Commentary
• Governance Statement As well as the quality and timeliness of supporting working papers for those statements.		We did not identify any other issues with quality and timeliness of the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement and the working papers to support those statements.
Volume and magnitude of identified errors	Mature	We have identified one financial statements misstatement above our reporting threshold. As this was not material and related to prior year it did not require an adjustment. The Remuneration Report has been adjusted to reflect correct calculation of pension values.

*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 consider 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 the significant risk. Detail behind each risk and the work undertaken is set out on the following pages.



Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	High	No adjustment
Fraud in revenue recognition	Yes	Assess design & implementation	Medium	No adjustment
Fraud in non- pay expenditure recognition	Yes	Assess design & implementation	Medium	No adjustment
Provision for dilapidations	No	Assess design & implementation	High	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
	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.
Significant risk description	Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.
	Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of business.



Risk area	Management override of controls		
	This is considered to be a significant risk and Key Audit Matter for the audit.		
	Inherent risk of material misstatement: Very High		
	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 evaluated the design effectiveness of management controls over journals. 		
How the scope of our audit responded to the significant risk	• Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals.		
	• Tested high risk and / or unusual journals posted during the year and after the unaudited financial statements stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the Board's journals policy.		
	• Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management 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 recognition	
	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted.	
	The 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.	
	In respect of Scottish Government funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is however present in all other income streams.	
Significant risk description	Revisions made on receipt of draft financial statements:	
	Our initial risk assessment set out that we considered the risk of fraud in revenue recognition to be both through the occurrence and completeness of income in the financial statements. On review of the draft financial statements and consideration of the Board's financial position throughout the year we considered the risk is in relation to occurrence and not to in respect of the completeness of income.	
	This was considered to be a significant risk and Key Audit Matter for the audit.	
	Inherent risk of material misstatement:	
	Revenue (occurrence): High	



Key risk area	Fraud in revenue recognition				
	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's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.				
How the scope of our audit responded to the significant risk	• 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.				
	• Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. This included targeted testing of contracts performance obligations to assess the point of revenue recognition against accounting standard requirements.				
	 Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year. 				
	At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for PHS's revenue resource allocation from Scottish Government. Our conclusion remained the same throughout the audit.				
Key observations	Our targeted work on income required checking the income recognition to underlying contracts and SLAs. We have noted two issues which required additional audit procedures to be undertaken where SLAs were not available or outdated. First, we have not received the 3- year service level agreement between PHS and NHS NES for NES Medical Training Grades. We have gained assurance for the occurrence of this income by reviewing email correspondence between the parties confirming the hours of work provided by PHS employees and the recharge amount for each period. Second, there was no				



Key risk area	Fraud in revenue recognition					
	valid SLA in place between PHS and Lothian Analytical Services (LAS), NHS Lothian for the provision of analytical services required to support NHS Lothian. When the full review of the old SLA was due, NHS Lothian made the decision to terminate the existing agreement. PHS has commenced a process where its staff working on that project would transfer to NHS Lothian PHS and as such a decision was made not to enter in negotiations for a new agreement that would likely be not necessary after the transfer is finalised. We have gained assurance for the occurrence of this income by reviewing invoices with supporting calculation of the cost and the remittance advice from NHS Lothian to confirm that the other party was not contesting the payments due. Based on audit work performed, our audit work has not identified any significant issues in respect of this risk.					



Key risk area	Fraud in non-pay expenditure recognition				
	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.				
	Revisions made on receipt of draft financial statements:				
Significant risk description	Our initial risk assessment set out that we considered the risk of fraud in non-pay expenditure recognition to be both through the occurrence and completeness of non-pay expenditure in the financial statements. On review of the draft financial statements and consideration of the Board's financial position throughout the year we considered the risk is in relation to completeness and not to in respect of the occurrence of non-pay expenditure.				
	This was considered to be a significant risk and Key Audit Matter for the audit.				
	Inherent risk of material misstatement:				
	Non-pay expenditure (completeness): High				
	Key judgements				
	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.				
	Audit procedures				
How the scope of our audit responded to the significant risk	• Documented our understanding of PHS's systems for 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. 				
	 Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. 				



Key risk area	Fraud in non-pay expenditure recognition				
	 Substantively tested material expenditure streams using analytical procedures and sample testing of transactions recognised for the year. 				
Key observations	Based on audit work performed, our audit work has not identified any significant issues in respect of this risk.				

Key risk area	Dilapidations cost (Key Accounting Estimate)				
	Glasgow Office Replacement Project				
Significant risk description	Following the end of the current office lease at Meridian Court in September 2023 there is the potential for existence of material dilapidation costs associated with leaving the property. PHS included dilapidation costs of £1.6million in the 2022/23 financial statements for that purpose. Valuation of this cost includes a level of estimation and judgement which are subject to annual review.				
	Inherent risk of material misstatement:				
	Right of Use Asset (Valuation): High				
	Lease liabilities (Valuation): High				
	Key judgements				
How the scope of	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end.				
our audit responded	Audit procedures				
to the significant risk	• Reviewed management's estimation for the dilapidation cost and related disclosures.				
	 Considered compliance with the requirements of the FreM, NHS Manual for Accounts and Scottish Government guidance. 				
Key observations	An agreement was reached between NSS and PHS in year over the value of dilapidations. £0.8million has been accounted for in the financial statements as utilised during				



Key risk area	a Dilapid	Dilapidations cost (Key Accounting Estimate)	
	the yea reverse	r with the remainder of the existing provision d.	

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 review 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 to PHS and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the financial statements was £1.8million. On receipt of the 2023/24 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our updated assessment has remained appropriate throughout our audit.

	£'000
Overall materiality for the financial statements	1,800
Performance materiality (75% of materiality)	1,350
Trivial threshold	90

Our assessment is made with reference to the PHS's gross expenditure. We consider this to be the principal consideration for users of the financial statements when assessing financial performance.

Materiality Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 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 cause 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 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 are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

Audit unadjusted differences we identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during our 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 in 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

The Board 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 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. In May 2024 the service auditor report highlighted no critical or significant risk findings and gave an unqualified opinion.
National IT contract	NHS National Services Scotland (NSS)
This contract covers the services provided by ATOS IT Services UK Limited e.g. controls over the principal IT service delivery supporting eFinancials.	procures a service auditor report from PWC. In May 2024 PWC reported a qualified audit opinion. We have considered the basis for the qualification and the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.
Provision of payroll services	NHS National Services Scotland (NSS)
National Services Scotland (NSS) provide payroll services for Health Improvement Scotland, NHS Education for Scotland and the Public Health Scotland.	procures a service auditor report from PWC. In May 2024 PWC reported an unqualified audit 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 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.		
Prior year adjustments identified	There were no prior year adjustments to the financial statements identified. One misstatement we identified and impacting on prior year did not require an adjustment as it was not material. It is detailed in Appendix 2. The Remuneration Report has been		
	adjusted to reflect correct calculation of pension values.		
Concerns identified in the following:			
 Consultation by management with other accountants on accounting or auditing matters 	No concerns were identified in relation to these areas.		
 Matters significant to the oversight of the financial reporting process 			
 Adjustments / transactions identified as having been made to meet an agreed system position / target 			

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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.

There are no significant financial statements disclosures that we consider should be brought to your 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.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, IFRS 16 treatment and accruals. As the dilapidation costs were utilised and reversed before the year end we have not determined any of the remaining accounting estimates to be significant as at 31 March 2024. See "Significant risks at the assertion level for classes of transaction, account balances and disclosures" section above for detailed findings in relation to key accounting estimates.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Finance, Risk and Assurance 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 nonmaterial 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 have 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.

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Confirmations from third parties

All requested third party confirmations have been received.



The wider scope of public audit

Auditor judgement

No major weaknesses in arrangements but scope for improvement exists

Financial Management

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

The Board met its key financial targets in the year, delivering an underspend against its revenue resource limit and 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 the Board does however requirement improvement to enable effective scrutiny, challenge and decision making. Management is working on developing the financial reporting as presented to the Board.



Auditor judgement

Risks exist to the achievement of operational objectives

The Board set a balance budget and financial plan for 2024/25.

In developing its financial plan, the Board's focus is on prioritisation. This is in comparison to previous years where the Board has focussed on expansion and growth. In previous years the Board 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 more challenging position and will require stronger arrangements to identify ways to prioritise its work.

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 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.

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.



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 continues to demonstrate effective leadership.

Governance arrangements throughout the year were found to be satisfactory and appropriate.

The Board's Blueprint for Good Governance improvement plan was formally approved by the Board in the March 2024. The Board identified a number of actions across four different priorities which will be progressed over the coming year.

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.

Risks exist to the achievement of operational objectives

Auditor judgement

PHS has appropriate performance management arrangements in place.

The main challenge affecting PHS's ability to deliver against its annual delivery plan commitments are workforce challenges. These have impacted on PHS's ability to deliver its commitments within the specified timescales.

PHS is placing significant focus on the implementation of its programme and project architecture to support the delivery of its strategy.

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.



Financial management

Financial performance 2023/24

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

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

All key financial targets were met in 2023/24. PHS made a saving against its core revenue resource limit of £193,000.

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

Financial target	Limit as set by SGHSCD £000	Actual outturn £000	Variance (Deficit)/ Surplus £000
Core revenue resource limit (RRL)	82,546	82,353	193
Non-core revenue resource limit	3,519	3,519	-
Core capital resource limit (CRL)	1,733	1,676	57
Non-core capital resource limit	(836)	(836)	-
Cash requirement	87,822	87,822	-

Performance against resource limits 2023/24

Source: Annual Report and Accounts 2023/24

Revenue financial outturn

The Board approved a three-year financial plan in March 2023. The financial plan set out a balanced position across the three-year period. As noted above, PHS made a saving against its core revenue resource limit in 2023/24, while returning £4.7million in year to the Scottish Government in support of the wider Health portfolio financial pressures.



In August, PHS agreed to support the Health & Social Care (H&SC) financial challenge by delivering an additional £2.6million savings (10% of in year allocations). A £1.4million reduction, in relation to Agenda for Change uplifts, was applied in November 2023; with a further £0.7million returned to the Scottish Government at the year-end.

A final total revenue resource limit of £86.2million was provided by Scottish Government Health and Social Care Directorate. This comprised a recurring baseline funding of £61.6million (after the return of £4.7million to Scottish Government) to support operational activities and additional funding of £24.6million for specific programmes and services. The Board also received income from NHS Scotland Boards, NHS Non-Scottish Bodies, Other Public Sector bodies and third parties for the delivery of services. Income from these bodies totalled £8.8million in 2023/24.

Efficiency savings

At the outset PHS forecast a breakeven position which was predicated on the achievement of £4.9million efficiency savings. PHS achieved £6.5million savings with £5.1million of these savings coming from the pay budgets, and the remainder from Glasgow office move.

Savings target £m	Savings achieved £m	Recurring £m	Non- recurring £m	Cash releasing savings £m	Non cash releasing savings £m
4.9	6.5	0.6	4.2	1.7	Nil

Source: PHS management

Capital financial outturn

The Board spent £0.8million against a core budget allocation of £1.1million. Over 30 capital projects are underway which are classified as 'delayed projects'. These projects were established prior to 2021 but were put on hold due to the pandemic. There has been some delays within Digital and Security (DaS), a strategic business unit within NSS.

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 and Director so that any changes are included in the detailed projections and that assumptions and risks associated with the figures 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.

Revenue budgetary control

In Q3 (November 2023), management reported a change from a forecast balanced revenue position to a forecast deficit position of £0.42million. This movement was the result of the removal of an expected Scottish Government funding allocation.

To address the deficit the Board increased its focus on reducing recruitment costs and all areas of discretionary spend. This approach resulted in £0.2million underspend against the revenue resource limit at the year-end.

Capital budgetary control

Robustness of capital forecasting has been identified by management and internal audit as an area for improvement. Specific areas for improvement identified by the internal audit include:

- 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.

Financial reporting

The Finance, Audit and Risk Committee (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. 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.

We have set out in the table below 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 the Board's financial position during the year.



Area	Description
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.
Directorate financial position	Consideration of reporting financial position at a directorate level
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.
Presentational	Use more charts and tables, instead of narrative, to make the financial performance clearer to the FARC and Board members.

Management should continue to develop the financial reports presented to FARC and the Board. **Refer to Recommendation 1, Appendix 3 Action Plan.**

Service level agreement with NSS

PHS and NSS signed a new SLA agreement during the financial year. NSS has responsibility for the operational finance function.

This agreement includes aspects not contained in the previous SLA, for example:

• the development of a more strategic partnership in relation to financial leadership and optimisation of the PHS/NSS work



- appointment of The Chief Officer Finance for PHS, resourced from NSS, but focused on PHS finance activities.
- The Chief Officer Finance is a member of PHS Executive Team where the organisational financial position, risk and opportunity is reviewed and discussed.

The new annual charge or for PHS is now at £7.6million paid to NSS (9.5% reduction on the previous SLA cost), subject to annual negotiated inflation uplifts.

Systems of internal control

We have evaluated the Board'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 the Board's accounting and internal control systems during our audit.

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 FARC.

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 2022, with matches received for investigation from January 2023.

We reviewed the progress PHS made in investigating matches and confirmed that PHS investigated and closed off all matches with no fraud identified. We completed an information return and submitted it to Audit Scotland in February 2024. This information return is a key source of evidence for Audit Scotland's next NFI report, due to be published in summer 2024.

Overall, we concluded that PHS's arrangements with respect to NFI are satisfactory.



Financial sustainability

Significant audit risk

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

Financial sustainability

Last year we noted that PHS has a financial plan in place covering the three-year period 2023/24 to 2025/26 and setting out a balanced position.

Its 2024/25 budget assumptions have been presented to the Finance, Audit and Risk Committee in January 2024 and PHS is assuming a break even position. The budget is based on several assumptions, including a £2.3million uplift for 2023/24 pay settlement, a £1.7mlllion National Boards savings target, and a flat baseline allocation from the Scottish Government.

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 remains a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives. More recently, PHS was asked by the Scottish Government to explore all options across the system to reduce expenditure, with specific request to minimise any recharges to territorial boards, instead absorbing associated spend within PHS allocations. This will create further financial pressures.

At the end of January 2024, the year-to-date reported position was a £0.17million surplus with a full year reported position of a £1.46million surplus. Management anticipate, through rigorous financial management, that PHS will achieve a balanced position at the year end

Our detailed findings on PHS's financial framework for achieving long term financial sustainability are set out below.



2024/25 Financial Plan

The 2024/25 budget and financial plan was presented to the Board in March 2024 for scrutiny and approval. The financial plan sets out a balanced position in 2024/25.

2024/25 Budget

	2024/25 £m
Income	
Baseline budget	57.5
SG additional allocation	28.8
Other income	10.7
Total Income	97.0
Pay	72.5
Non pay	26.2
CRES	(1.7)
Total expenditure	97.0

Source: 2024/25 Budget and Financial Plan

Key assumptions

The financial plan is based on the following assumptions:

- flat baseline;
- £1.7million contribution to the National Boards Savings Challenge;
- 0% pay award;
- no financial impact from Agenda for Change non-pay items (as advised by Scottish Government who has committed to provide additional funding if required);
- 1.5% vacancy saving; and
- £3% cash releasing efficiency savings (CRES).

A financial gap before savings of £5.535million was projected in developing the 2024/25 financial plan. PHS has set a savings target of £5.535million and other cost



reduction measures to improve the financial position. This results in a breakeven position in 2024/25.

	2024/25 £m
Income / funding reduction	3.019
Expenditure pressures	2.516
Savings required to achieve break even, of which:	5.535
Recuring	3.905
Non-recurring	1.630

Source: Three Year Financial Planning submission to SG 2025-2027

In developing its financial plan, the Board's focus is on prioritisation. This is in comparison to previous years where the Board has focussed on expansion and growth. In the previous years the Board 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 more challenging position and will require stronger arrangements to identify ways to prioritise its work.

PHS plans to undertake an organisational-wide exercise in prioritisation. To date, there has been two Leadership Team meetings (extended Executive Team including all Heads of Service) and at least one all staff discussion dedicated to the topic with practical work underway.

In setting a balanced budget all planned and notional vacancies, many of which had been carried since PHS was created, have been removed with pay expenditure limited to the existing employees complement. This will require the Board to prioritise existing resources to meet its financial plan and strategic priorities. The Board has approved that the recruitment of new staff will not be able unless new income streams are identified.

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 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 is facing a number of challenges as reflected in its financial plan assumptions, including a requirement to identify savings of over £8million over the next three



years, deliver a minimum 3% of savings in 2024/25 and to continue delivery of its programmes. Over the next two years expected cost of the COVID public enquiry are estimated at close to £0.6million and incremental pay increases will add another £1.3million. While PHS has generated some recurring savings from its office move, the office fit out costs in 2024/25 are estimated at £1.4million.

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. **Refer to Recommendation 2, Appendix 3 Action Plan.**

PHS 2024-27 financial plan

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. **Refer to Recommendation 3, Appendix 3 Action Plan.**

The Scottish Government provided feedback to PHS on its 2024-27 financial plan in April 2024.

The feedback included next steps for PHS to undertake ahead of quarter 1 reporting, including:

- Progress delivery of a minimum of 3% recurring savings in 2024/25 and develop options to meet any unidentified or high risk savings balances.
- Continue to progress with the areas of focus set out in the 15 box grid.
- Engage and take proactive involvement in supporting national programmes as they develop in 2024/25.
- Provide an update on the financial risks outlined in the financial plan to assess likelihood of these materialising and the impact these could have on the Board's outturn.



Vision, leadership and governance

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 Finance Plan. In 2024/25, PHS will begin to develop its new strategic plan.

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 plan is agreed by Scottish Government and Convention of Scottish Local Authorities (COSLA). The Operating Plan incorporates comment and feedback from its sponsors. The Operating Plan sets out what PHS will do towards NHS Scotland's ten Recovery Drivers. While differences in emphasis, there is considerable overlap between the Operating Plan and PHS's vision and strategic outcomes.

Leadership

PHS continues to demonstrate effective leadership.

PHS inherited a variety of systems and structures from its legacy bodies. In 2021/22, it put in place a new leadership structure. Over the coming years, it aims to further develop its organisational structure and start a cycle of continuously improving its systems, including its approach to programme and project management. The work on the governance structure improvements is ongoing and PHS aims to:

- review the effectiveness of its staffing structure.
- agree whether a third phase of organisational change is required.
- assess and refine its continuous improvement framework.
- During the year the Board has undertaken the following activities:
- Development of cross-organisational delivery of its portfolio, including introduction of 'executive team modes' with weekly and 6-weekly meetings of the executive team to monitor programmes delivery.
- Annual risk workshop to review the risks in context of PHS strategy and delivery plan, to identify any potential gaps and agree new risks
- Continuing delivery and development of it 'Transforming PHS' programmes which are organisational focused on people and organisational development.



- Progressing with implementing internal audit recommendations on improving its governance arrangements.
- Transferred its staff to a new office.
- Put mitigation actions in place in response to the pressure to the workloads coming from the COVID inquiry.
- Agreed early last year not to take a whole organisation approach to formal organisational change and perform as required in induvial areas, for example in customer focus.
- Under the new Chief Executive, PHS is seeking to take the opportunity to strengthen its position as an agent for change externally and more open and inclusive internally. This is and has been the focus of a number of internal programmes, staff conference last year, monthly all staff conversations and the work it is pioneering on whole system approaches to population health.

Since November 2023 the Executive Team has been continuing to work with an external company on the team collective development. PHS is also developing a Leadership and Development Strategy for the whole of PHS. General leadership development is supported by SLA with NSS.

Board and senior management changes in 2023/24

At the Board level, two non-executive directors appointments ended during the year (Councillor Jacquelline Cameron and Ewan Pow). One of these posts is a COSLA nominee and a replacement is currently being recruited for. The other post is not being replaced as the Board at full complement.

There has also been changes to its Executive Team with the appointment of a new Director of Population, Health and Wellbeing. New Chief Officers for People and Finance departments were also appointed and are members of PHS Executive Team. The newly appointed Chief Officers are NSS employees but funded through the SLA and dedicated to PHS.

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 2023/24, the Board has maintained all aspects of board governance, including its regular schedule of board and committee meetings.

Through our attendance at 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. The self-assessment exercise was undertaken by the Board in December 2023 where all Board members completed the survey. The Board has engaged in a series of facilitated events to support its discussions and decision making in establishing four, high impact priorities for 2024/25 that we believe we have the capacity and capability to address productively, alongside wider organisational activity, to achieve its desired outcomes.

The development plan was formally approved at the March 2024 Board development session. A series of actions were identified, which were grouped between four priorities split between new and ongoing actions, with most of them to be completed by March 2025.

FARC performed self-assessment in August 2023 and concluded that it functions well overall and is seen as the most mature of the committees at PHS.

Risk management arrangements

FARC provides oversight and scrutiny of risk management activity. The Committee 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 Committee with assurance that risk management is operating effectively and that there is integration between organisational risks and audit activity.

PHS Committees receive regular risk update reports. The Committees review and challenge business, clinical, reputational and workforce risks respectively across PHS at each meeting.

The PHS 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.



During the year PHS reviewed its risk management arrangements which included the following:

- The risk identification process.
- The Risk Team completing initial training and carrying out risk workshops.
- Further training to increase staff awareness is provided across the organisation on Risk Management, the PHS Risk Management Approach and the PHS Risk Register. The compliance rate for the mandatory Risk Management e-learning module at the end of March 2024 was 81%.
- Further development of its risk management approach has been delayed from July 2024 to September 2024 due to the other priorities.

Internal audit

An effective internal audit service is an important element of a Board's overall governance arrangements. In 2022, KPMG were reappointed as PHS's internal auditors.

During our audit we considered the work of internal audit to inform our risk assessment and our work on the governance statement.

Internal Audit's overall Opinion for 2023-24 provides "Significant assurance with minor improvements" on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. No 'high priority' management actions were raised in the period. There were therefore no significant weaknesses requiring to be reported in the governance statement.



Use of resources to improve outcomes

Strategic Plan 2022 to 2025

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 for the next three years and includes the actions and impact it aims to deliver in 2022-2025 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 its work, PHS has developed a new framework, a portfolio of cross-organisational programmes, to manage the internal and external activity PHS will carry 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 Arrangements

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.



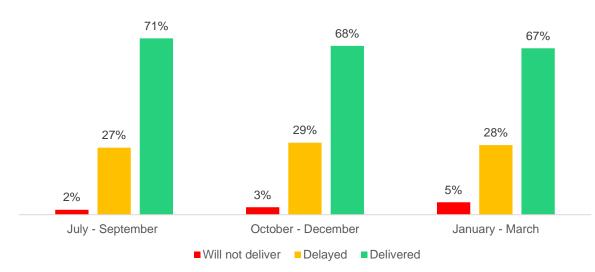
Performance in 2023/24

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 2024 to March 2024, the Board reported:

- Life expectancy fell in 2020-22 for the third consecutive period.
- The difference between the death rates in the poorest and the wealthiest narrowed in 2022

Progress against the Annual Delivery Plan

The performance reports as presented quarterly to the Board include progress against its annual delivery plan. In 2023/24, NHS Scotland changed its planning cycle (from April to July). As such, and following approval of its annual delivery plan in June 2023, PHS reported on progress from July 2023 onwards.



Status of Milestones at Quarter End

Source: Annual Report and Accounts 2023/24

The main issue affecting PHS's ability to deliver against its annual delivery plan commitments are workforce challenges. These have impacted on PHS's ability to deliver its commitments within the specified timescales. This position is consistent with prior years.

PHS is placing significant focus on the implementation of its programme and project architecture to support the delivery of its strategy. The current performance reporting model is considered a work in progress. PHS is working on achieving a more mature model through:



- Redesigning the project management structure, to develop its Project Management Office (PMO) to manage risks and planning together and develop appropriate handbook and procedures.
- Rethinking its portfolio approach and links between work done and the benefits achieved.

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.



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Appendix 1: Responsibilities of PHS and the Auditor

PHS responsibilities

The Code of Audit Practice (2021) sets out the responsibilities of both PHS and the auditor and are detailed below.

Area	PHS responsibilities	
Corporate governance	PHS 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.	
	PHS has responsibility for:	
	 preparing financial statements which give a true and fair view of the financial position of PHS 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; 	
Financial statements	 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 	
and related reports	• 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 PHS and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.	



Area	PHS responsibilities	
	PHS 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. PHS 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	PHS 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	 PHS 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 of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General for Scotland 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 PHS 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

<u>Ministerial guidance to Accountable Officers for public bodies</u> 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 <u>Quality of public audit in</u> <u>Scotland: Annual report 2023/24</u>

Independence

The Ethical Standards and ISA (UK) 260 require us to give PHS full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our updated External Audit Annual Plan issued confirming audit arrangements we note the following matter to bring to PHS's attention:

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard.

In particular:

- Non-audit services: There are no non-audit services provided to the Board.
- 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 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 2024 was two years.



Audit fees

The total fees charged to PHS for the provision of services in 2023/24 were as follows:

Fee element	2023/24	2022/23
Auditor remuneration (expected fee level)	£71,060	£61,100
Auditor remuneration (above expected fee level)	-	£2,630
Pooled costs	£8,590	£5,530
Audit support costs	-	£2,390
Sectoral cap adjustment	£25,350	£30,000
Total fees	£105,000	£101,650

There have been no non-audit fees charged to PHS by Azets during the year. The audit fees charged reconcile to the fees disclosed in the financial statements.



Appendix 2: Audit differences identified during the audit

We are required to inform the Board of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit.

Adjusted misstatements

We identified no adjusted misstatements during our audit.

Unadjusted misstatements - prior year only

Details of items corrected following discussions with management are as below.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCNE Dr / (Cr) £'000
1.	An accrual was posted to 2023/24 instead to 2022/23	-	Accrual (102)	-	Expenditure 102
	Net impact on 2022/23 (income)/expenditure				102
	Net impact on 2022/23 net assets				(102)



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 PHS.

We identified a number of reclassification adjustments and some minor presentational issues in PHS's accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	No Detail	

- 1. Governance Statement- various minor disclosure points.
- 2. Staff report inclusion of reconciliation of employee expenditure per the Staff Report to these notes.
- 3. Accounting policies various minor disclosure points.
- 4. Annual Report various minor disclosure points identified from completion of disclosure checklist
- 5. Remuneration report pension disclosures for cash equivalent transfer values were amended to exclude employee contributions and prior year comparators were restated where relevant.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.



Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2023/24 audit.

The recommendations are categorised into three risk ratings:

Key:

- 1.Significant deficiency
- 2. Other deficiency
- 3. Other observation



1. Financial management reporting		Other observation
	FARC has been challenging the quality of the financial information in order enable appropriate scrutiny and understanding of PHS financial performance.	
Observation	The newly appointed Chief Officer – Finance working with FARC to develop the financial in presented to committee. Gradual improvement been made to date.	nformation
Recommendation	Management should continue to develop the reports presented to FARC and the Board.	financial
Management response	As noted in the observation, work has been of this area for a number of months following fe FARC.	• •
	No material change was made to reporting the fourth quarter, partly to maintain consistency through a financial year but also recognising of annual planning and financial close. It is in financial reporting presented to FARC will be of the first quarter 2024/25 reporting cycle whe recognising that this is an evolving process of development.	of reporting the priorities ntended that enhanced as nilst
	Responsible officer: Chief Officer Finance	
	Implementation date: 21 August 2024	



2. Scenario planning / sensitivity analysis Other observat		Other observation
	PHS is facing a number of challenges as refl financial plan assumptions.	ected in its
Observation	Through our review of PHS financial plan we seen evidence of scenario planning or sensit over the assumptions applied. The use of sc analysis of assumptions based on sound info supports the Board in making informed budg decisions.	tivity analysis enarios and ormation
Recommendation	Management should develop and present so and sensitivity analysis to FARC to enable in challenge and decision making by members.	formed
Management response	Through the planning and budget setting pro- coming financial year various scenarios were with final assumptions presented to FARC and as a balanced budget. As we progress throu any movement within the financial position we analysis and scenario planning where necess appropriate. Explicit communication of scen- and sensitivity analysis will be considered the annual planning and budget setting cycle. Responsible officer: Chief Officer Finance Implementation date: 31 March 2025	e considered, nd the Board ugh the year vill be met with sary and ario planning rough the next



3. Financial governance Other observa		Other observation
Observation	PHS's 3-year financial plan (2024/25 to 2026/27 submitted to the Scottish Government. PHS rec approval from Scottish Government on its financial April 2024 We note however the financial plan presented to FARC or the Board.	ceived cial plan in
Recommendation	The financial plan should be presented to FARC Board to enable informed decision making.	C and the
Management response	The 2024/25 financial plan submitted to Scottish Government included a 2-year outlook. This wi with FARC for noting. Strategic and Operational Planning will be shared with FARC on an ongoin noting the enhancements to Financial Managen Planning as noted in recommendations one and Responsible officer: Chief Officer Finance	ll be shared al Financial ng basis, nent and
	Implementation date: 21 August 2024	



4. Cyber awareness training Other deficien	
Observation There is regular training in place for cyber security relate topics. Completion rates for this training however is below 50%. As this training is not mandatory, it does not follow an escalation process.	
Recommendation	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.
Management response	The current training programme for cyber security will be reviewed to determine the most appropriate way to ensure that all staff are aware of the risks and importance of cybersecurity.
	There is an existing "stay safe on line" e-learning module that is available to staff through Turas Learn though it is currently not mandatory. As noted above, their already is regular monthly awareness training implemented the effectiveness of which will be assessed.
	Responsible officer: Director of Strategy, Governance & Performance
	Implementation date: 31 December 2024



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