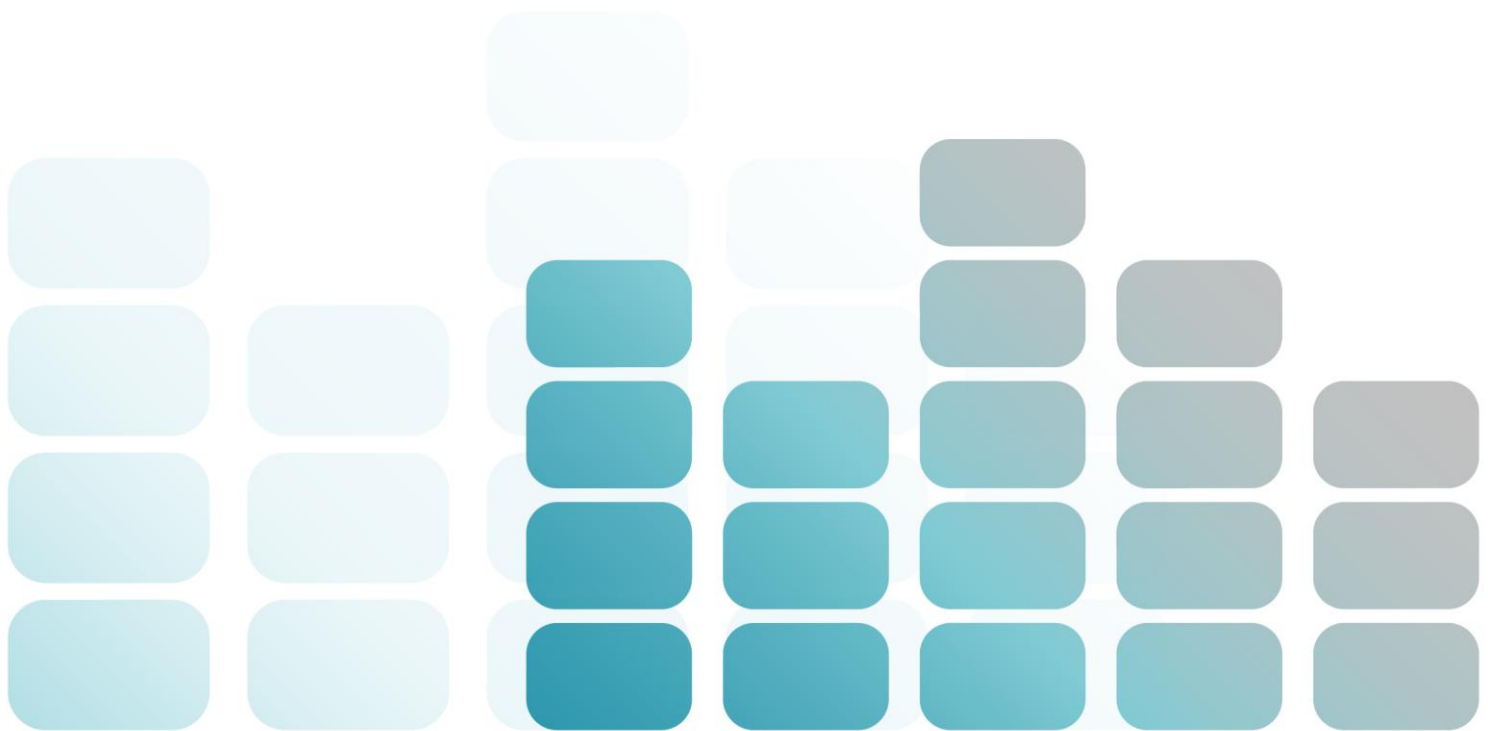


NHS National Services Scotland

Annual Audit Plan 2025/26



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland
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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of NHS National Services Scotland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Lisa Duthie, Audit Director, has been appointed by the Auditor General for Scotland as external auditor for the period 2024/25 until 2026/27.

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

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

Communication of fraud or suspected fraud

5. In line with International Standard on Auditing (ISA) (UK) 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit scope and responsibilities

Scope of the audit

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

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

Responsibilities

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

Auditor's responsibilities

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

NHS National Services Scotland's responsibilities

9. NHS National Services Scotland has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant

legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

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

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

Audit of the annual report and accounts

Introduction

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

Materiality

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

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

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

Exhibit 1

Materiality levels for 2025/26 audit

Materiality	Audited body
<p>Planning materiality: Based on an assessment of the needs of users of the financial statements and the nature of NHS National Services Scotland's operations, gross expenditure has been used as the basis for calculating planning materiality. Planning materiality for the 2025/26 audit has been calculated at 1.5 per cent of gross expenditure based on the audited 2024/25 financial statements.</p>	£18 million

Materiality	Audited body
<p>Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.</p>	£11.5 million
<p>Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements greater than the 'reporting threshold' amount.</p>	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

Exhibit 2**Significant risks of material misstatement to the 2025/26 financial statements**

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is a presumed risk on all audits.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Complete focused testing of accruals and prepayments. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.
<p>Fraud in expenditure recognition</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 National Services Scotland due to the complexity and number of expenditure streams, including the procurement and contracting NHS National Services Scotland undertakes on behalf of other NHS Boards.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Conduct analytical procedures over expenditure streams to support detailed testing. • Undertake focused testing of payments made under contracts. • Undertake substantive testing of expenditure transactions across the financial year. • Undertake substantive testing of post-year end payments to confirm they have been recorded in the correct financial year.

Risk of material misstatement	Planned audit response
<p>Estimation in the valuation of land and buildings</p> <p>NHS National Services Scotland is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated replacement cost (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> <p>NHS National Services Scotland 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>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required. • Review management's assessment that the value of assets not subject to a valuation process in 2025/26 is not materially different to current value at the year-end, and challenge this where required.
<p>Estimation in the valuation of inventories</p> <p>ISA (UK) 501 defines the specific audit procedures required where inventory is material.</p> <p>As NHS National Services Scotland 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>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Assess the design and implementation of controls over inventory management and counts. • Attend physical inventory counts to observe procedures, assess the accuracy of instructions and test the reliability of records. • Agree stock balances at 31 March 2026 to control sheets prepared during inventory counts. • Substantively test inventory items by tracing them back to purchase invoices to verify the accuracy of valuations. • Assess the adequacy of provisions for obsolete inventory by reviewing management's inventory analysis. • Review the inventory write offs including the approval process.

Risk of material misstatement	Planned audit response
<p>Approval and sign-off arrangements for 2025/26 accounts</p> <p>On 17 June 2025 the Cabinet Secretary for Health and Social Care announced that NHS National Service Scotland will come together with NHS Education for Scotland to create a new single body called Public Services Delivery Scotland from 1 April 2026.</p> <p>The Chief Executive and Chair of the Board have been announced but no other appointments have been made. The governance arrangements for after 31 March 2026 have not been finalised yet so there is uncertainty around how this may impact on the approval and sign-off of the audited NHS National Services Scotland 2025/26 Annual Report and Accounts.</p> <p>There is a risk that the signing of the 2025/26 accounts is delayed, or that additional audit work will be required to obtain the assurances required for the appointed auditor to certify the audited accounts.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Continue to engage with management on the preparations for Public Services Delivery Scotland. • Review the activity of the Programme Board established to oversee the formation of Public Services Delivery Scotland. • Consider the appropriateness of the governance arrangements put in place for the approval of the 2025/26 accounts, including review of the relevant assurances.

Source: Audit Scotland

Key audit matters

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

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

Wider scope and Best Value

Introduction

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

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

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

Duty of Best Value

21. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have

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

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

23. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM and auditors are required to carry out a review of the 'fairness and equality' theme at least once during the five-year audit appointment. This was carried out during the 2024/25 audit and the risk assessment process for the 2025/26 audit did not identify a need to carry out any specific audit work on any of the other Best Value characteristics this year.

Significant wider scope and Best Value risks

24. Our planned work on our wider scope responsibilities and Best Value is risk based and proportionate, and no significant risks in the wider scope areas or Best Value were identified from the 2025/26 risk assessment process. However, as detailed in [Exhibit 2](#) above, we will consider the impact of the formation of Public Services Delivery Scotland on the wider scope areas of our audit, and the future operations of NHS National Services Scotland within the new body, and report on these within our 2025/26 Annual Audit Report.

Reporting arrangements, timetable and audit fee

Audit outputs

25. The outputs from the 2025/26 audit include:

- this Annual Audit Plan
- an Independent Auditor's Report to NHS National Services Scotland, the Auditor General for Scotland and the Scottish Parliament setting out opinions on the annual report and accounts
- an Annual Audit Report to NHS National Services Scotland and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

26. The matters to be reported in the outputs will be discussed with NHS National Services Scotland to confirm factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which will be included in the audited annual report and accounts and signed by the appointed auditor.

27. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 30 June 2026 for health bodies.

28. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 June 2026.

Audit timetable

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

charged with governance, where required. The dates detailed * below are provisional and are based on last year's timeline. These will be confirmed in due course.

Exhibit 3

Provisional timetable for audit of 2025/26 Annual Report and Accounts

Audit activity	Target date
Submission of unaudited annual report and accounts and all working papers to audit team	6 May 2026
Latest date for audit clearance meeting	9 June 2026
Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	11 June 2026*
Consideration of proposed Annual Audit Report and audited annual report and accounts by those charged with governance	18 June 2026*
Agreement of audited annual report and accounts for approval by the Board	19 June 2026*
Approval and signing of audited annual report and accounts	26 June 2026*
Certification of Independent Auditor's Report and issue of Annual Audit Report	26 June 2026*

Source: Audit Scotland

Audit fee

30. NHS National Services Scotland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2025/26 audit is set at £264,740 (2024/25: £253,730).

31. In setting the audit fee, it is assumed that NHS National Services Scotland has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit, including any extension to the audit timetable or additional unanticipated work related to the establishment of Public Services Delivery Scotland. Where the audit cannot proceed as planned, the audit fee may need to be increased.

Other matters

Internal audit

32. NHS National Services Scotland is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

33. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

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

35. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

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

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

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

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

NHS National Services Scotland

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