



# Public Health Scotland

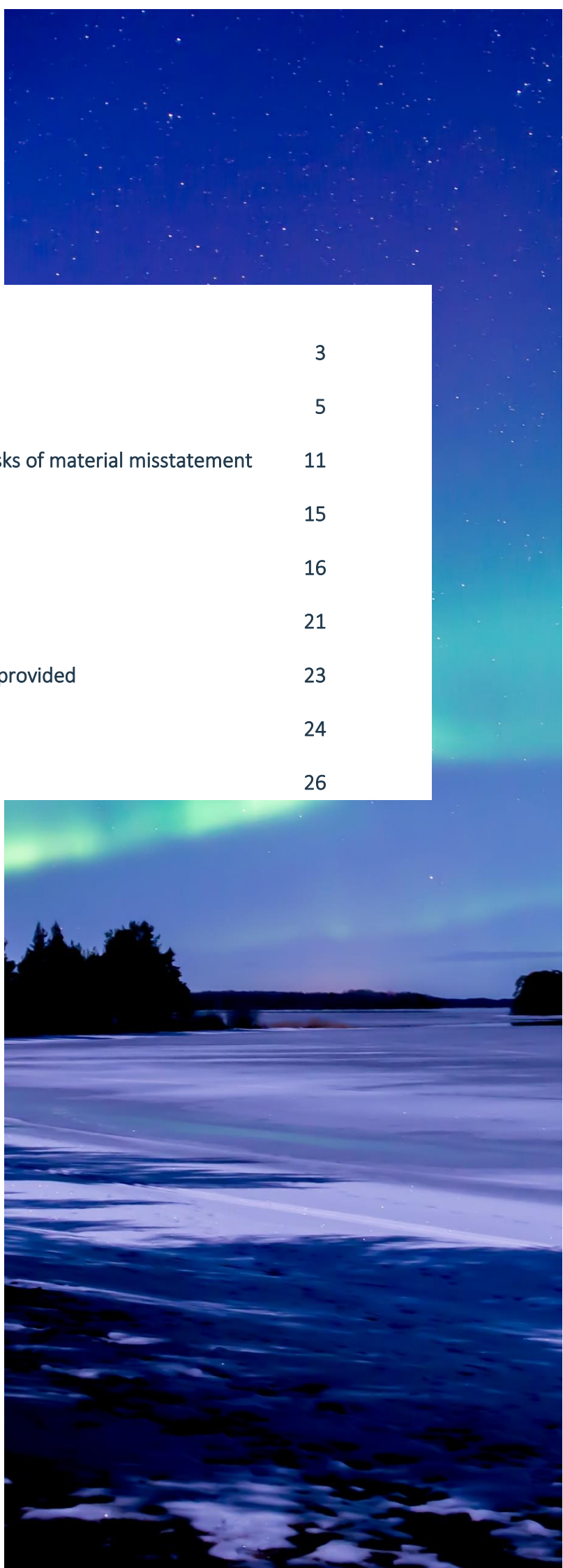
External Audit Annual Plan

Year ended 31 March 2026

March 2026

## Table of Contents

Introduction	3
Audit scope and general approach	5
Financial statements - significant and other risks of material misstatement	11
IT Audit strategy	15
Wider scope of public audit	16
Audit team and logistics	21
Independence, objectivity and other services provided	23
Audit fees	24
Appendices	26



# Introduction

## Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Public Health Scotland (“PHS”) for the year ended 31 March 2026 (2025/26) for those charged with governance.

The main elements of the audit include:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report.
- Consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
- Confirmation that arrangements are in place to secure Best Value.
- Provision of an Independent Auditor’s Report expressing our opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.
- Provision of an Assurance Statement on the consolidation schedules completed by PHS that are used to facilitate the preparation of the health information included in the Scottish Government Consolidated Accounts.

## Responsibilities of PHS and the auditor

PHS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. PHS is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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.

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

[Appendix 2](#) provides further details of our respective responsibilities.

## Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

## Openness and transparency

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

# Audit scope and general approach

## Risk-based audit approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of PHS, including its environment, the financial reporting framework and its system of internal control.
- Review the design and implementation of key internal controls.
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures.
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

## Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Finance, Audit and Risk Committee.

## Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may also be required to provide information to Audit Scotland to support the national performance audits and we may review PHS's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which PHS uses the national performance reports as a means to help improve performance at the local level.

### Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource PHS is used as efficiently and effectively as possible.

### Shared systems and functions

Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. Assurance reports are prepared by service auditors in the health sector covering the national systems / arrangements. We consider the audit assurance reports when evaluating PHS's systems.

## Delivering the audit

### Hybrid audit approach

We adopt a hybrid approach to our audit which combines on-site visits with remote working and learning from the better practices developed during the pandemic.

### Secure sharing of information

We use a cloud-based file sharing service 'Inflo' that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

### Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

## Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

Our determination of materiality:

- Informs the scope of our audit and audit procedures
- Informs the sample sizes required for substantive testing
- Informs our consideration in evaluation the effect of actual and projected misstatements in the financial statements

Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning. The basis for our assessment of materiality for the year is set out in [Appendix 1](#). Materiality levels are summarised as follows:

**Planning materiality:** We have set our materiality at 2% of gross expenditure based on the 2024/25 audited financial statements, resulting in £2.0million.

**Performance materiality:** Using our professional judgment, we have assessed performance materiality at 75% of planning materiality, resulting in £1.5million.

**Reporting threshold:** We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this at approximately 5% of planning materiality, resulting in £0.1million.

**Specific materiality:** We have applied a lower materiality threshold for audited disclosures within the remuneration report section of the Remuneration and Staff Report, and in relation to related parties disclosures. Due to the public interest in both areas, we apply specific audit procedures to this work and set a lower materiality level for this area.

## Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to PHS.

## Specialised skill or knowledge required to complete the audit procedures

Our audit team will consult internally with our Technology Risk team in:

- Assessing the information technology general controls (ITGC).
- Reviewing the service auditor report findings and following up on any recommendations.

## Going Concern

In most public sector entities (including health boards), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of PHS.

### Management responsibility

Management is required to make and document an assessment of whether PHS is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management is also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

### Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about PHS's ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will take cognisance of the guidance published in Practice Note 10 (PN10), which focuses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

## Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Public Sector Fraud Authority for the UK. It uses technology to compare information held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.

The most recent NFI exercise commenced in 2024, the findings of which will be published in Audit Scotland's NFI report in summer 2026.

We continue to monitor PHS's participation and progress in NFI and, where appropriate, will include references to NFI in our 2025/26 Annual Audit Report. In addition, we are required, in 2025/26, to complete a return for Audit Scotland, assessing PHS's participation in the NFI exercise. The return assesses the adequacy of NFI governance arrangements and follow-up activity. We submitted this return by the February deadline. PHS was given a 'Green' rating with no issues noted. The information provided in the return is a key source of information for Audit Scotland's NFI report.

## Wider scope of public audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgments and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 2](#) provides detail of the wider scope areas of our work. Our initial risk assessment and scope of work planned for 2025/26 is outlined in the "Wider scope of public audit" section of this plan.

## National risk assessment

Where particular areas of national or sectoral risk have been identified by the Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2025/26 no such risks have been specified.

## Best Value

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

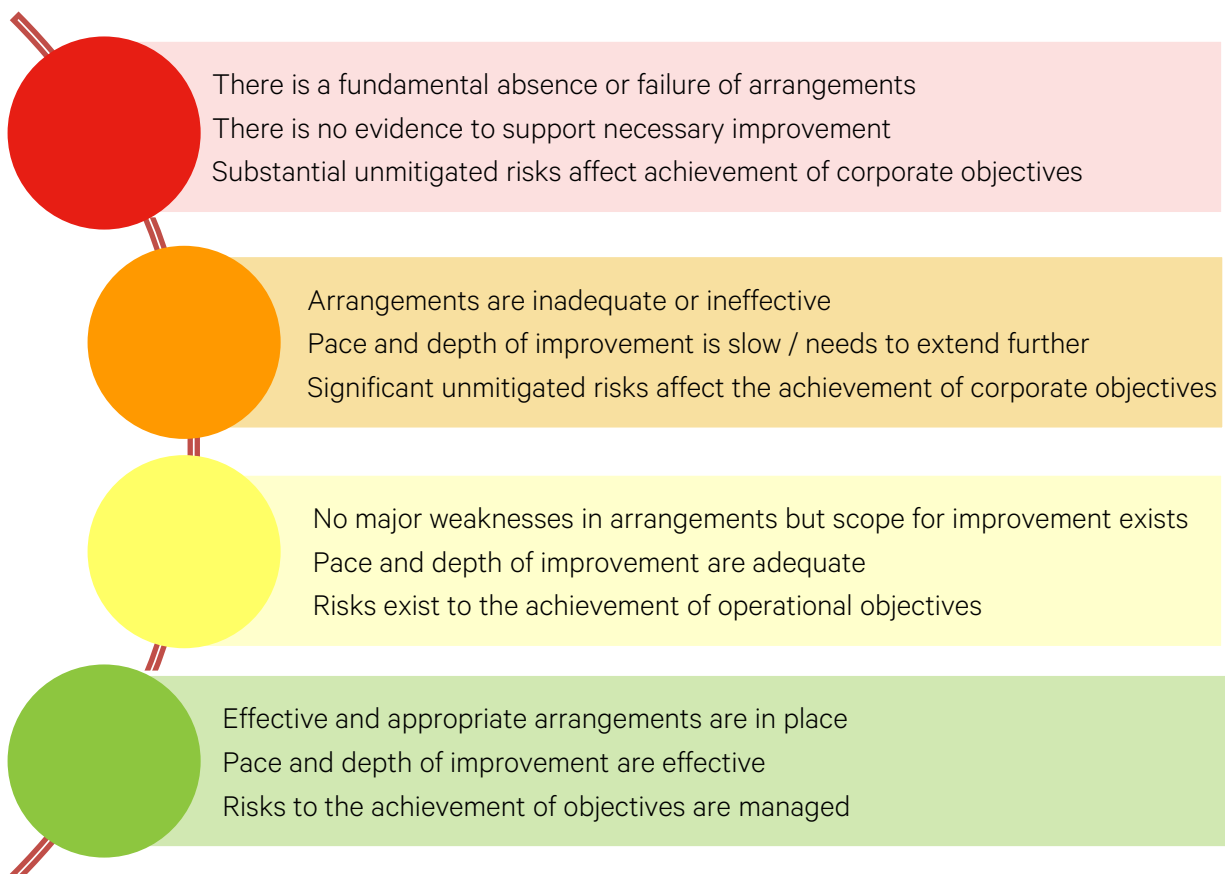
## Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts, and;
- an annual audit report describing our audit findings, conclusions on key audit risks, judgments on the pace and depth of improvement on the wider scope areas, and any recommendations.

## Definitions

We will 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.



## Financial statements - significant and other risks of material misstatement

Significant risks are defined as risks that require special audit consideration and include risks of material misstatement that are close to the upper range of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement, or are required to be treated as significant risks due to requirements of auditing standards.

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

Significant risk	Financial Statement or Assertion Level Risk	Fraud Risk	Approach to controls	Level of judgment / estimation uncertainty
Management override of controls	Financial Statement	Yes	Assess design and implementation	Very high
Fraud in revenue recognition	Assertion	Yes	Assess design and implementation	High
Fraud in expenditure recognition	Assertion	Yes	Assess design and implementation	High

## Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified 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.

Management override of controls	Planned audit procedures
<p>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.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgments and one-off transactions outside the ordinary course of the business.</p> <p><b>Risk of material misstatement: Very High</b></p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals.</li> <li>• Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals.</li> <li>• Testing high risk and/or unusual journals posted during the year and after the draft financial statements stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with PHS's journals policy.</li> <li>• Gaining an understanding of the key accounting estimates and critical judgments made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud.</li> <li>• Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

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

Fraud in revenue recognition	Audit approach
<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240.</p> <p>Having considered the nature of the revenue streams at PHS, we consider that the risk of fraud in revenue recognition can be rebutted in respect of Scottish Government funding due to a lack of incentive and opportunity to manipulate revenue of this nature, but cannot be rebutted on all other income streams due to presumption is PHS could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. We consider the risk is in relation to occurrence of income.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Revenue recognition (Occurrence): High</b></p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the PHS systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating 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.</li> <li>• Performing substantive testing of income using tests of detail (in the riskier areas) by ensuring they can be traced to appropriate supporting evidence.</li> <li>• Evaluating the PHS's accounting policies for recognition of income.</li> </ul>
Fraud in expenditure recognition	Audit approach
<p>We have considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at PHS. We consider that the risk can be rebutted on pay expenditure but cannot be rebutted on non-pay expenditure as most public sector bodies are net</p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the PHS systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating the design of the controls in the key accounting systems, where a risk of</li> </ul>

Fraud in expenditure recognition	Audit approach
<p>expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. On consideration of the PHS’ financial position throughout the year, we consider the risk is in relation to completeness of expenditure.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Expenditure recognition</b></p> <p><b>(Completeness): High</b></p>	<p>material misstatement was identified, by performing a walkthrough of the systems.</p> <ul style="list-style-type: none"> <li>• Verifying that the expenditure (in the riskier areas) included within the financial statements are complete by substantively testing post year-end invoices received and cash payments made.</li> <li>• Evaluating the PHS’s accounting policies for recognition of expenditure.</li> </ul>

## Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

## IT Audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them.

Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

We will consult internally with our Technology Risk team who will support the audit team by assessing the information technology general controls (ITGC) over the following systems:

IT Application	Audit area	Planned level of IT audit assessment
Finance System (eFinancials)	Financial Reporting	ITGC assessment (design and implementation effectiveness) Through review of assurance reports which are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.
Active Directory	Network Access	ITGC assessment (design and implementation effectiveness)
Payroll System (provided by National Services Scotland)	Payroll	ITGC assessment (design and implementation effectiveness) Through review of assurance reports which are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.

# Wider scope of public audit

## Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes

## Our audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- Identifying significant audit risks at the planning stage of the audit.
- Reaching conclusions on those risks.
- Making recommendations for improvement.
- Where appropriate, setting out conclusions on the audited body's performance.

When reporting on such arrangements, the Code of Audit Practice requires us to structure our commentary under the four areas identified above. [Appendix 2](#) provides further detail on the definition, scope and audit considerations under each wider scope area.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of PHS's key priorities and risks along with discussions with management and review of board and committee minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas. Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our Annual Audit Report.

## Wider scope significant risks

### Financial sustainability

Risks continue to exist over the medium to longer term financial position and the impact these have on the delivery of PHS's strategic objectives.

PHS is in the process of developing a 3-year financial plan for the financial years 2026-27 to 2028-29. The plan is informed by Scottish Government planning guidance with respect to baseline, pay and inflation assumptions. The assumptions applied are consistent across the 3 years, excluding any one-off items. PHS made a draft submission to Scottish Government in February with a final plan due for submission in March following review and approval by both FARC and the PHS Board. Due to scheduling constraints, the final plan will be submitted to Scottish Government pending PHS Board approval on 25th March 2026.

In the current financial planning cycle, PHS has further developed its process for the preparation of its financial plans. This has included further working with cross-organisational programmes and is considering scenario planning, sensitivity analysis and zero-based budgeting. Planning work is also reflecting on recent publications such as the Population Health Framework, the Service Renewal Framework, and the new PHS 10 year strategy.

Currently circa 25% of PHS's funding from Scottish Government is non baseline recurring. While PHS is working with Scottish Government to review all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation, the proportion of non-recurring funding presents a risk to PHS, in terms of both quantum and flexibility, to affect its ability to deliver its medium and long term strategic objectives.

Due to actions taken in-year, including a pause to all external recruitment, and other savings achieved in-year, PHS is currently forecasting that it will achieve a breakeven position 2025-26 with a modest surplus likely.

There still exists uncertainty over funding levels and key financial assumptions places PHS in a challenging position in developing financially sustainable plans to support the delivery of its strategic objectives.

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**Our audit response:**

During our audit we will review whether PHS has appropriate arrangements in place to manage its financial position. In particular we will assess:

- Whether progress has been made in updating financially sustainable plans which reflect the medium and longer term impact of cost pressures to support the delivery of PHS's statutory functions and strategic objectives.
  - Whether impact of the level of non-recurring and recurring income streams on the financial position in medium and long term has been considered in the financial plans.
  - Whether the need to include scenario planning in preparation of the medium-term financial plans has been considered.
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## Other wider scope work

In formulating our audit plan, we identified areas of possible significant risk in relation to all wider scope areas. Our audit approach will include reviewing and concluding on the following considerations to substantiate whether significant risks exist:

### Financial management

- A review of management's arrangements to enable PHS to deliver a breakeven position at the year-end.
- Whether the PHS' procedures for settlement, severance, early retirement and redundancy have been re-considered/updated and complied with.

### Vision, leadership and governance

- Whether the governance arrangements are in place to ensure the impact of the expected National Services Scotland and NHS Education for Scotland on PHS services is appropriately monitored and actions exist to mitigate the risks.
- Whether the new PHS' strategy is aligned with the Scottish Government objectives and strategic framework.
- The progress made by PHS in implementing the actions within the Blueprint for Good Governance improvement plan.
- Whether PHS can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.

### Use of resources to improve outcomes

- Whether PHS can evidence the achievement of value for money in the use of resources in the context of financial and resource constraints.
- Whether PHS has considered that its quarterly performance reports should give narrative over consequences on either the delay or non-delivery of milestones within the annual Delivery Plan.
- Whether PHS considered adding national reports on NHS published by Audit Scotland to the FARC agendas for consideration.
- Whether the information on the outcomes of the prioritisation programme is monitored and appropriately reported to the relevant committee.

## Best Value

The Scottish Public Finance Manual (SPFM), explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The duty of Best Value, as set out in the SPFM, is:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance.
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

We consider the arrangements in place to secure Best Value through our work on the wider scope areas.

Ministerial guidance sets out seven Best Value themes:

1. Vision & Leadership
2. Governance & Accountability
3. Use of Resources
4. Partnerships
5. Working with Communities
6. Sustainability\*
7. Fairness & Equality\*

\*Sustainability & Equality being crucial cross-cutting element.

In line with Audit Scotland planning guidance issued to auditors, there is an expectation that equalities will be advanced through the audit process, and we will carry out work on the Fairness and Equality theme at least once during our audit appointment.

We will consider this in the context of our wider scope audit work in 2025/26 and include commentary in our Annual Audit Report as appropriate.

## Audit team and logistics

### Audit management team

Our audit management team will be as follows:

Role	Name	Contact details
Engagement Lead	Karen Jones	karen.jones@azets.co.uk
Engagement Manager	Adrian Kolodziej	adrian.kolodziej@azets.co.uk
Engagement Audit Senior	Jay Bhuchar	jay.bhuchar@azets.co.uk

### Timetable

The following timetable indicates the key milestones and required outputs:

Event	Date
Planning and risk assessment	November 2025 to March 2026
Reporting of draft plan to Finance, Audit and Risk Committee (FARC)	21 January 2026
Interim audit	February 2026
Reporting of final plan to Finance, Audit and Risk Committee	18 March 2026
Receipt of draft accounts and commencement audit fieldwork	5 May 2026
FARC to consider accounts and audit report	17 June 2026
Board meeting to approve accounts for signing	25 June 2026
Target date for submission of signed accounts to Scottish Government	30 June 2026
Target submission date for assurance statement on the consolidation schedules to the Scottish Government and its auditor.	30 June 2026

## Our expectations and requirements

For us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines agreed with us. These should be complete including all notes, the Performance Report, Remuneration and Staff Report and the Governance Statement.
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed in advance to ensure clarity over our expectations.
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing.
- Ensuring staff are available and on site (as agreed) during the period of the audit.
- Prompt and sufficient responses to audit queries to minimise delays.

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet all deadlines. It is essential that the audit team and the finance team work closely together to achieve the above timetable.

## Independence, objectivity and other services provided

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services are provided to Public Health Scotland.

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

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

We confirm that Azets Audit Services and the engagement team comply with FRC's Ethical Standard. There are no facts or matters that impact our integrity, objectivity and independence as auditors that we are required or wish to draw to PHS's attention. We consider an objective, reasonable and informed third party would take the same view.

## Audit fees

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit.

Audit fees are reviewed by Audit Scotland each year, based on Audit Scotland's overall budget proposals. The budget proposal and fee levels (for the 2025/26 audits) have been developed recognising the difficult financial environment and the challenges facing public services, and public audit's role in helping meet them.

An efficient and effective audit requires a strong partnership where audited bodies and appointed auditors work together to deliver their respective statutory responsibilities for accounts and audit. The expected fees assume that effective partnership working is in place.

The overall increase in fees for 2025/26 annual audits is 4.3%.

The audit fee assumes that the body has:

- well-functioning controls
- an effective internal audit service
- an average risk profile
- sound governance arrangements in place and these operated effectively throughout the year
- prepared accurate unaudited financial statements which meet the agreed timetable for audit
- prepared comprehensive working papers to support the accounts

As auditors we negotiate the fee with the Board during the planning process. The auditor remuneration element of the audit fee may be varied to reflect the circumstances and local risks within the body. For 2025/26, we are not proposing a variation to the audit fee.

The breakdown of the fee for 2025/26 is shown in the table below.

Fee element	2025/26	2024/25
Auditor remuneration	76,860	74,050
Pooled costs	8,410	7,670
Sectoral cap adjustment	26,430	25,330
<b>Total audit fee</b>	<b>111,700</b>	<b>107,050</b>

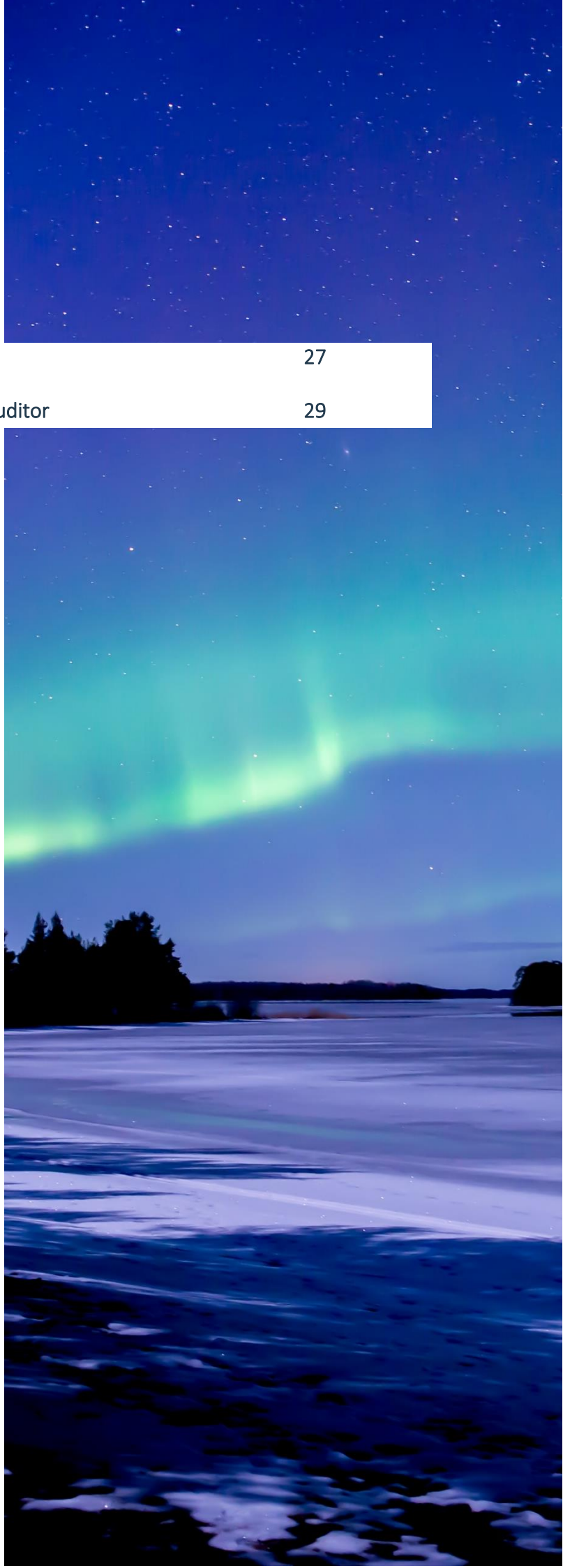
We will take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit

visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work.

An additional fee will be required in relation to any other significant work not within our planned audit activity.

## Appendices

Appendix 1: Materiality	27
Appendix 2: Responsibilities of PHS and the Auditor	29



## Appendix 1: Materiality

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

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgment and is affected by our assessment of the risk profile of PHS and the needs of the users.

When planning, we make professional judgments about the size of misstatements which we consider to be material, based on our knowledge of PHS, considering factors such as financial stability, expectations of readers and stakeholders, sector developments and financial reporting requirements. In determining materiality we consider the level of misstatement that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2026 is calculated as follows.

	£million
<b>Overall materiality for the financial statements</b>	2.0
<b>Performance materiality (75% of materiality)</b>	1.5
<b>Trivial threshold (5% of overall materiality)</b>	0.1
<b>Materiality</b>	<p>Our initial assessment is based on approximately 2% of gross revenue expenditure as disclosed in the 2024/25 audited financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of PHS.</p> <p>The financial statements are considered to be materially misstated where total errors exceed this value.</p>
<b>Performance materiality</b>	<p>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</p>

	<p>perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>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.</p>
<b>Trivial threshold</b>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>Individual errors above this threshold are communicated to those charged with governance.</p>

In addition to the above, we consider any areas for specific lower materiality.

We have applied a lower materiality threshold for audited disclosures within the remuneration report section of the Remuneration and Staff Report, and in relation to related parties disclosures. Due to the public interest in both areas, we apply specific audit procedures to this work and set a lower materiality level for this area

In respect of the audited disclosures within the remuneration report, we will 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 will consider the significance of the transaction with regard to both PHS and the Counter party, the smaller of which will drive materiality considerations on a transaction-by-transaction basis.

We evaluate errors for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual.

## Appendix 2: Responsibilities of PHS and the Auditor

### PHS responsibilities

PHS has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	PHS responsibilities
<b>Corporate governance</b>	<p>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.</p>
<b>Financial statements and related reports</b>	<p>PHS has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• 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;</li> <li>• 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</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements.</li> </ul> <p>Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity 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.</p> <p>PHS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls.</p>

Area	PHS responsibilities
	<p>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.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>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 by putting proper arrangements in place.</p>
<p><b>Financial position</b></p>	<p>PHS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>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.</p>

## The Auditor General and Audit Scotland

The Auditor General for Scotland is a Crown appointment and independent of the Scottish Government and Parliament. The Auditor General is responsible for appointing independent auditors to audit the accounts of the Scottish Government and most Scottish public bodies, including NHS bodies, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the [2021 Code](#)) describes the high-level, principles-based purpose and scope of public audit in Scotland.

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

### Our responsibilities

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

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgment. 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.

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## 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.

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## 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.

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## 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.

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## 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.

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## Audit quality

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

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2024/25 | Audit Scotland](#)



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**Moving forward with confidence**

