



NHS Fife

External Audit Annual Plan 2022/23

March 2023



Table of Contents

Introduction	3
Audit scope and general approach	4
Significant and other risks of material misstatement	13
Wider scope	22
Your Azets audit management team	31
Audit timetable	32
Audit fee	34
Auditor independence and objectivity	36
Appendix 1: Responsibilities of the Auditor and the Board	37
Appendix 2: Impact of revised auditing standards	42
Appendix 3: Materiality	45
Appendix 4: National risk areas under scope of audit in 2022/23	47

Introduction

Azets have been appointed by Audit Scotland as the external auditor to NHS Fife (“the Board”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts.
- consideration of the wider scope areas of public audit work.
- any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will 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 www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the Board

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.

The Board 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. The Board is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 1](#) provides further details of both our responsibilities and those of the Board.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

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 Audit and Risk Committee.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

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.

Our new Audit Scotland appointments include Fife Integration Joint Board and Fife Council. Where practicable and appropriate we will share knowledge between our teams to generate efficiencies in the delivery of our audits.

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 review the Board'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 the Board uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Sharing intelligence for health and social care

The Sharing Intelligence for Health and Social Care Group enables seven national agencies¹ to share and consider intelligence about the quality of health and social care systems across Scotland. The aim of the group is to support improvement in the quality of health and social care. When any of the agencies has a potentially serious concern about a health and social care system, the group ensures this is shared and acted upon appropriately.

We are required to complete an intelligence return and attend the group meeting when the Board is being considered. Attendance at the meeting also provides us with the opportunity to hear intelligence from other agencies.

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 to the Board 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 the Board's systems.

¹ The seven national agencies referred to are: Healthcare Improvement Scotland, NHS Education for Scotland, the Care Inspectorate, Audit Scotland, the Scottish Public Services Ombudsman, the Mental Welfare Commission for Scotland and Public Health Scotland.

Delivering the audit – post pandemic

Hybrid audit approach

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

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service 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.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts and are acceptable for laying in Parliament. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts 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 general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and 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 or 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; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

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.

Key audit developments in 2022/23

Revised auditing standards², which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the Board manages risks. [Appendix 2](#) provides further details on the implications of these new requirements.

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. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to

² Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

influence the economic decisions of users taken on the basis of the financial statements.

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.

The basis for our assessment of materiality is set out in [Appendix 3](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. 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 is not for the purpose of expressing an opinion on the effectiveness of the controls.

We will report to the Board significant deficiencies in internal controls that we identify during the audit. The scope of our work is not designed to be an extensive review of all internal controls.

Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

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 the Board.

Group audit scope and risk assessment

As Group auditor, we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express our opinions on the group financial statements.

The Group consists of the following entities:

Component	Significant	Level of response required
NHS Fife	Yes	Comprehensive
Fife Integration Joint Board (IJB)	No	Analytical
Fife Health Board Endowment Fund (Fife Health Charity)	No	Analytical

Comprehensive – the component is of such significance to the group as a whole that an audit of the component’s financial statements is required for group reporting purposes.

Analytical - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Risks at the component-level

At this stage of our audit cycle we have only identified significant risks in NHS Fife. These are detailed in the Significant and other risks of material misstatement section of our plan. We have not identified any risks in the other components.

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 working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole. The most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. As part of our 2022/23 audit, we will monitor the Board’s participation and progress in the NFI.

Anti-money laundering

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Wider audit scope work

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 judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 1](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the '[Wider Scope](#)' 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 2022/23 the following areas have been identified:

- Climate Change
- Cyber Security.

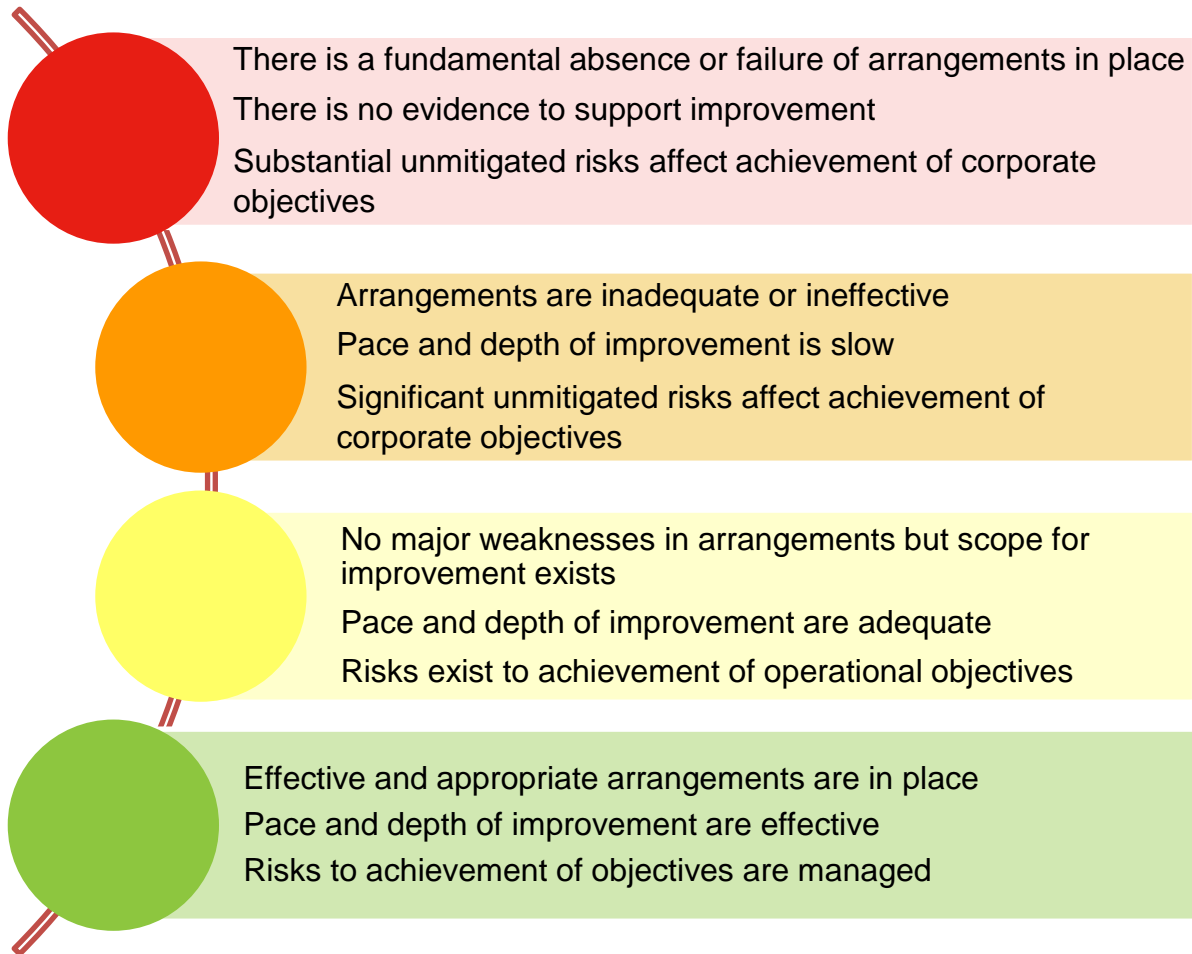
[Appendix 4](#) provides further detail as to the scope of this work.

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 will consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on the wider scope areas. We will use the following gradings to provide an overall assessment of the arrangements in place.



Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum 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 by auditing standards, for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the 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.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>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.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and to ensure

Identified risk of material misstatement	Audit approach
	<p>approval has been undertaken in line with the Board’s journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the Board could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>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.</p> <p>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.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue (occurrence / completeness): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the significant income streams and reviewing the controls in place over accounting for revenue. • Considering the Board's key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Identified risk of material misstatement	Audit approach
<p>Fraud in non-pay expenditure</p> <p>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.</p> <p>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.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High • Accruals (existence / completeness): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the significant non-pay expenditure streams and reviewing the controls in place over accounting for expenditure. • Considering the Board’s key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Identified risk of material misstatement	Audit approach
<p>Commitments under PFI contracts</p> <p>The Board has two PFI contracts:</p> <ol style="list-style-type: none"> 1. Community Hospital and Health Centre in St Andrews. The contract is for a period of 30 years commencing 31 July 2009. 2. Phase 3 of the Victoria Hospital site in Kirkcaldy. The contract is for a period of 30 years commencing 28 October 2011. <p>These initiatives are recognised as non-current assets on the Board's balance sheet with the net book value as at 31 March 2022 of £29million and £182million respectively. The liability to pay for these assets is in substance of finance lease obligation.</p> <p>The Board pays a fixed monthly unitary payment to ensure the buildings are maintained to an agreed level of service specification. This unitary payment is subject to annual inflation.</p> <p>Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.</p> <p>Inherent risk of material misstatement:</p> <p>PPP asset (valuation): High</p> <p>Lease liabilities (valuation): High</p> <p>Expenditure (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the Board's PFI contracts and how these are accounted for. • Reviewing evidence to support the value of these contracts. • Reviewing the Board's calculation of unitary payments. • Reviewing the Board's compliance with the FReM and NHS Manual for Accounts regarding PFI contracts.

Identified risk of material misstatement	Audit approach
<p data-bbox="193 344 759 423">Valuation of land and buildings (key accounting estimate)</p> <p data-bbox="193 445 810 602">NHS Fife held land and buildings with a net book value of £464million at 31 March 2022, with external valuations on a five-year rolling basis.</p> <p data-bbox="193 624 810 898">There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the Board's asset base represents an increased risk of misstatement in the financial statements.</p> <p data-bbox="193 920 810 958">Inherent risk of material misstatement:</p> <p data-bbox="193 981 735 1059">Land & Buildings (valuation): Very High</p>	<p data-bbox="815 344 1398 456">Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul data-bbox="815 479 1398 1783" style="list-style-type: none"> <li data-bbox="815 479 1398 680">• Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. <li data-bbox="815 703 1398 815">• Evaluating the competence, capabilities and objectivity of the valuation expert. <li data-bbox="815 837 1398 994">• Considering the basis on which the valuation is carried out and challenging the key assumptions applied. <li data-bbox="815 1016 1398 1308">• Testing the information used by the valuer to ensure it is complete and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer. <li data-bbox="815 1330 1398 1532">• Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. <li data-bbox="815 1554 1398 1783">• Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Identified risk of material misstatement	Audit approach
<p>IFRS 16 Implementation (key accounting estimate)</p> <p>The adoption of IFRS 16 on leases was delayed for NHS organisations and was implemented from 1 April 2022 therefore impacting on the 2022/23 financial statements for the first time.</p> <p>There is a risk that lease terms, lease payments and the discount rate used to measure lease liabilities are inappropriately determined, therefore creating a risk that the financial statements are materially misstated. There is also a potential risk that lease liabilities are not completely recorded.</p> <p>Inherent risk of material misstatement:</p> <p>Right of Use Asset (valuation): High</p> <p>Right of Use Asset (completeness): High</p> <p>Lease liabilities (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the Board’s process for reviewing lease arrangements and contracts to determine leases falling within the remit of IFRS 16. • Testing the completeness and accuracy of the data collected by the Board and used as part of the implementation of IFRS 16. • Assessing the key judgements and decisions made about material contracts such as property leases or where lease terms are not prescriptive. • Reviewing the appropriateness of the discount rate used in the calculation of the lease liability. • Reperforming the calculation of the lease liability and right of use asset for a sample of leases. • Reviewing the accounting policy and related disclosures for IFRS 16 in line with the requirements of the Financial Reporting Manual (FReM), NHS Manual for Accounts and Scottish Government guidance.

Identified risk of material misstatement	Audit approach
<p>Provisions- CNORIS (key accounting estimate)</p> <p>The Board's financial statements includes provision for legal obligations in respect of clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme).</p> <p>There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement:</p> <p>Provisions (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing management's estimation for the provision and related disclosures. • Considering compliance with the requirements of the FReM and NHS Manual for Accounts. • Considering the competence, capability and objectiveness of the management expert.

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

Upgrade to eFinancials

The eFinancials system was upgraded at the start of 2023. There has been significant disruption to some elements of the system since this update. Three issues were identified to have significantly impacted on the provision of services within the health finance teams:

1. Performance of the system leading to delayed posting of very large month end journals and for some transactions these requiring to be broken down
2. Instability of DbCapture resulting in some Boards reverting to paying invoices manually
3. Difficulties in running reports resulting in a delay to reporting month 10 position.

While we understand these issues have now been resolved we will consider these in the context of our audit to determine whether any have led to a misstatement in the 2022/23 financial statements. We will consider the service auditor report and findings and engage our IT specialists to support our work in this area.

Provision of payroll services

The Board's payroll services are transferring to NSS as part of a South East payroll service including NHS Fife, NHS Forth Valley, NHS Lothian and Scottish Ambulance Service. Staff transferred into NSS in February 2023. There will be a six month stabilisation period. NSS are due to provide assurances that, for the period to 31 March 2023, the controls have not changed from those operated by NHS Fife's in-house team. We will consider these arrangements as part of our review of the Board's IT controls and will engage our IT specialists to support our work in this area.

Accounting treatment for recovery of COVID-19 reserves

In 2021/22 NHS Fife received additional COVID-19 funding of £95million of which £59million was passed to Fife Integration Joint Board (the "IJB"). As at 31 March 2022, £35.993million was held as an IJB earmarked reserve.

The Scottish Government has notified health boards and integration authorities of its intention to recover part of this funding, including £21million of the COVID-19 earmarked reserves in Fife IJB. To achieve this, NHS Fife will provide reduced funding contributions to the IJB to allow utilisation of the reserves balance.

As part of our audit work we will review the accounting treatment and disclosures in the financial statements to ensure they comply with the relevant accounting standards and any other applicable guidance issued.

Wider scope

Introduction

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

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

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Board'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. This section summarises our audit work in respect of each wider scope area.

Wider scope significant risk

Financial sustainability

The Board submitted its draft medium term financial plan to the Scottish Government, in line with set deadlines, in February 2023. The final version of the plan is due to be considered by the Finance, Performance and Resources Committee and Board in March 2023.

The draft plan shows a cumulative financial gap, before mitigations, of £73.195million over the period 2023/24 to 2027/28. A breakeven position for 2023/24 and 2024/25 and a surplus from 2025/26 onwards is forecast; however, this is subject to the delivery in full of challenging cost improvement plans and receipt of brokerage in 2023/24 and 2024/25.

The Board faces extreme challenges in achieving savings targets, reducing surge activity and reducing reliance on bank and agency staff while addressing areas of under-performance against targets and recovering from the COVID-19 pandemic. The emerging and uncertain impact on the Board's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk.

Our audit response:

During our audit we will review whether the Board has appropriate arrangements in place to manage its future financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of cost pressures and that continue to support the delivery of the Board's statutory functions and strategic objectives.

Our audit approach to the wider scope audit areas



Financial sustainability

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

Consideration	Our audit approach
<p>The Board continues to face significant workforce pressures, including unfilled vacancies and reliance on supplementary staff across the organisation. The Workforce Plan for 2022 – 2025 was approved by the Board in July 2022 and includes:</p> <ul style="list-style-type: none"> • working with local universities to maximise recruitment of newly qualified nurses. • a programme encouraging the ongoing recruitment of staff from overseas. <p>As at month 8, November 2022, the Board identified the impact which high levels of staff vacancy is having on its use of supplementary staffing for both nursing and medical workforces, as a primary driver for the forecast over-spend position.</p> <p>The Board has recognised the impact that the continued workforce pressures is having on the achievement of its short, medium and longer term financial targets.</p>	<p>We will review and conclude on:</p> <ul style="list-style-type: none"> • The ongoing development of financial planning and modelling to identify and address risks to financial sustainability. • The appropriateness and effectiveness of arrangements in place to address any identified funding gaps. • The implementation and delivery of workforce plans to reduce the Board’s reliance on supplementary staff.



Financial management

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

Consideration

The Board met all its key financial targets in 2021/22, delivering small underspends against its Revenue Resource Limit and Capital Resource Limit. This was achieved despite the impact of COVID-19 (£36million of additional costs) through additional funding from Scottish Government.

In 2021/22 the Board received additional COVID-19 funding of £95million of which £59million was passed to the IJB. The Scottish Government has notified its intention to recover part of this funding, and £21million of the £35million COVID-19 funding held in IJB reserves will be transferred back to the Scottish Government through NHS Fife.

As at month 8, November 2022, the Board reported an overspend of £19.562million. The 2022/23 financial plan assumed funding of £8.758million to cover COVID-19 expenditure; however, it was confirmed that only £7.5million would be received in 2022/23. The Board is working with the Health & Social Care Partnership to determine a system wide approach to support the COVID-19 cost activity for the full year.

The Board approved the 2022/23 financial plan in March 2022 which included unidentified savings of £10.4million. At month 8, the Board had achieved £6.099million of its efficiency savings against the year to date target of £7.260million, with only £2.337million of savings being recurring in nature. In addition, the Board

Our audit approach

We will review and conclude on:

- The achievement of financial targets.
- Whether the Board can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance.
- Whether the Board has arrangements in place to ensure systems of internal control are operating effectively.
- Whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.
- The effective and efficient delivery of the NTC-Fife project.

Consideration

Our audit approach

has recognised the increased challenge which the cost of living crisis, inflationary pressures and the level of system pressures will have on the achievement of the full year savings target for 2022/23.

Construction of the National Treatment Centre-Fife was completed in January 2023 and the facility will open to patients from April 2023. Overall, the capital project remained within budget (£33.200million) and was completed within one month of the original timescale.



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.

Consideration

The Board made progress in the development of a new Population Health and Wellbeing Strategy during 2022/23. The strategy will outline how NHS Fife will deliver its organisational strategic priorities and has a focus on population health and wellbeing. A Population Health and Wellbeing Portfolio Board was established in 2021/22 to oversee the development and delivery of the new strategy.

The first draft strategy document has been produced and was shared with the Population Health and Wellbeing Portfolio Board in December 2022. The final draft strategy is due to be approved by the Board in March 2023.

Board and Committee meetings continue to be held remotely through virtual means where local media and the public can request to watch Board meetings online. Meetings are expected to follow a hybrid approach from March 2023. Throughout 2022/23, to date, the Board has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meeting, to allow for effective scrutiny, challenge and informed decision making.

The Board Chair term of appointment ends in March 2023. Recruitment of this post has commenced.

The Board agreed to refresh its Risk Management Framework during 2022/23 which included the formation of the Risks and Opportunities Group (ROG) that first met in

Our audit approach

We will review and conclude on:

- The clarity of plans to implement the new Population Health and Wellbeing Strategy.
- Whether the Board can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- Whether inductions and ongoing training arrangements for new Board members support effective scrutiny and challenge.
- The transparency of decision-making, financial reporting and performance data.
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.

Consideration

Our audit approach

September 2022. The role of ROG includes monitoring and reviewing the risks, considering links to the Board's risk appetite, the strategic priorities, the operational risk profile, and providing critique, recommendations and assurance to Executive Directors' Group, committees and other stakeholders.

In September 2022, the Board agreed that the Board Assurance Framework would be replaced by the Corporate Risk Register. Work is ongoing to ensure that the Corporate Risk Register and risk appetite are aligned to the Board's strategic priorities.



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.

Consideration	Our audit approach
<p>The Board and Committees receive regular updates on performance through the Integrated Performance and Quality Reports (IPQR). These reports provide assurance on the Board’s performance against National Standards and Local Key Performance Indicators (KPIs). In September 2022, a revision was made to performance reporting through the production of different extracts of the IPQR for each Standing Committee to enable more efficient scrutiny of the performance areas relevant to each committee.</p> <p>As at month 8, November 2022, performance was the same or improved for 11 of 37 KPIs, compared to the previous year and 20 KPIs were more than 5% behind target. The key areas of declining performance include:</p> <ul style="list-style-type: none"> • Waiting Times (including 4-hour emergency access, new outpatients, psychological therapies and diagnostics). • Sickness Absence. • Child Immunisation. <p>The COVID-19 pandemic continues to have a significant impact on the Board’s activity and waiting times for services. To support service recovery, the Board is progressing the targets and aims of the 2022/23 Annual Delivery Plan, which was approved by the Scottish Government in September 2022.</p>	<p>We will review and conclude on:</p> <ul style="list-style-type: none"> • Whether the Board can evidence the achievement of value for money in the use of resources. • Whether outcomes are improving and if there is sufficient focus on improvement and the pace of it. • The Board’s service recovery from the COVID-19 pandemic.

Consideration

Our audit approach

The Board has a best value framework in place. All standing committees complete a Best Value Framework assessment alongside their Annual Statement of Assurance. The assessments demonstrate the Board's commitment to continuous improvement, set out the Best Value characteristics and list measures, expected outcomes and evidence against each characteristic.

Your Azets audit management team

Chris Brown: Engagement Lead

chris.brown@azets.co.uk

Chris is the partner in charge of our audit of NHS Fife. Chris has over 30 years' experience in NHS auditing and leads most of our external audit appointments in the health sector. Chris is a recognised specialist in public sector governance and risk management and is also our UK Head of Public Sector Audit.



Karen Jones: Engagement Manager

karen.jones@azets.co.uk

Karen is one of the directors responsible for our Audit Scotland appointments. She has considerable experience in planning and delivering public sector audits, producing management reports and liaising with senior management and audit committees.

Karen will work alongside Chris to deliver the external audit to NHS Fife.



Audit timetable

The submission deadline for the annual accounts is normally set to be consistent with the administrative deadline set by the Scottish Government. It was moved to 30 September for 2019/20 and 2020/21, and 31 August for 2021/22, but is returning to the pre-pandemic 30 June from 2022/23.

The Auditor General is required to send the audited annual accounts to the Scottish Ministers who are then required to lay the accounts in the Scottish Parliament by 31 December.

We have set out below target months which align to the Board's schedule of Audit and Risk Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Audit & Risk Committee	Deadline
Audit strategy	Onboarding and initial engagement, introductory meetings and presentation of audit strategy.	November	5 December 2022	N/A
Audit plan	Planning meetings, understanding the entity, risk assessment. Audit plan setting out the scope of our audit, including key audit risks, presented to the Audit & Risk Committee.	December – March	15 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems. We will provide a verbal update to the Audit and Risk Committee on work	December - March	18 May 2023	N/A

Audit work/ output	Description	Target month/s	Audit & Risk Committee	Deadline
	carried out during our interim audit.			
Final audit	Accounts presented for audit and final audit visit begins.	May	N/A	N/A
Independent Auditor's Report	This report will contain our opinions on the financial statements, the audited part of the remuneration and staff report, annual governance statement and performance report.	June	23 June 2023	30 June 2023
Annual Report to the Board and the Auditor General for Scotland	At the conclusion of each year's audit we issue an annual report summarising our work and all opinions, conclusions, significant issues and recommendations. This report pulls together all of our work under the Code of Audit Practice.	June	23 June 2023	30 June 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

For 2022/23, the new auditor appointment process provided Audit Scotland with a fair representation of the current audit market and highlighted the increasing requirements, expectations and scrutiny of the audit profession.

High quality audit work is essential to successfully deliver a fully ISA and Code of Audit Practice-compliant audit. These factors have led to above inflation increases in the cost of audit. Whilst these increases are significant, they are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

In the health sector, the average fee increase is 21.8%, where the average fee was previously £134,673 and has risen to £163,984.

Audit Scotland sets an “expected” audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

The expected fee level notified to the Board for 2022/23 is £199,850, which is £35,720 higher than the fee agreed in the previous year and reflects the sectoral increase of 21.8%.

As auditors, we negotiate a fee with the Board that reflects our assessment of the work required to address the risks identified during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee above the expected fee level to reflect the following areas of work:

Area	Fee
Additional costs associated with the first year of our audit appointment, increased focus on IT general controls, and high levels of significant audit risks within the NHS.	£15,000
Implementation of IFRS 16 and associated accounting queries.	£2,000

Our audit fee for the current year (with prior year comparatives) is as follows:

	2022/23	2021/22
Auditor remuneration	£191,700	£141,310
Pooled costs	£15,810	£15,850
Audit support costs	£6,830	£6,970
Sectoral cap adjustment	£2,510	-
Total fee	£216,850	£164,130

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

Auditor independence and objectivity

We are required 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.

Azets has not been appointed to provide any non-audit services during the year. We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the Board

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 Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

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



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

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

Wider scope audit work

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

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

	<h3>Financial management</h3> <p>Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.</p> <p>Auditor considerations</p> <p>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.</p>
	<h3>Financial sustainability</h3> <p>Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p>Auditor considerations</p> <p>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.</p>

	<h3>Vision, leadership and governance</h3> <p>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.</p> <p>Auditor considerations</p> <p>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.</p>
	<h3>Use of resources to improve outcomes</h3> <p>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.</p> <p>Auditor considerations</p> <p>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.</p>

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 <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Board responsibilities

The Board 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	Board responsibilities
Corporate governance	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position 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 that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>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>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and</p>

Area	Board responsibilities
	<p>compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>The Board 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"> • 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.
<p>Best Value</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>

Appendix 2: Impact of revised auditing standards

Revised auditing standards, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on the Board & our approach
<p>Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks</p>	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of the Board’s structure and operations and how it integrates information technology (IT) • more information about the Board’s processes for assessing risk and monitoring its system of internal control • more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment. <p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks</p>

Key change	Potential impact on the Board & our approach
	<p>identified, including any new significant risks which require a different response.</p>
<p>Understanding and acting on risks associated with IT</p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p>Enhanced procedures in connection with fraud</p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the Board:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties • the risks of material fraud, including those specific to the health sector. <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the</p>

Key change	Potential impact on the Board & our approach
	<p>financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the Board and management.</p>
<p>Enhanced requirements for exercising professional scepticism</p>	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
<p>Using the right resources, in the right way, at the right time</p>	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

Appendix 3: 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 the organisation 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 the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

	Group £million	Board £million
Overall materiality for the financial statements	14	14
Performance materiality	10.5	10.5
Trivial threshold	0.250	0.250

Materiality

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

Our assessment of materiality equates to approximately 1% of the Board's gross expenditure as disclosed in the 2021/22 audited annual report and accounts.

We set materiality for both the Group and the Board at the same level given our assessment and approach to the group audit. We have concluded, at the planning stages of our audit, that the IJB and Fife Health Charity are not significant components to the overall group.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

Trivial misstatements

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Audit Scotland’s planning guidance this should not exceed £250,000.

Appendix 4: National risk areas under scope of audit in 2022/23

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions

What targets has the body set for reducing emissions in its own organisation or in its local area?

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.



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