

# NHS Education for Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Education for Scotland

2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Education for Scotland (NES). The main elements of our work include:

- an assessment of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report setting out an audit opinion on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and 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
- consideration of best value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of NES for the period 2022/23 to 2026/27.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business to support our identification and assessment of audit risks. While we use our initial assessment of risk to inform our planned audit approach, we keep it under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to NES by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help NES promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and NES

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NES. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

### NES responsibilities

9. The Accountable Officer is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. NES has the primary responsibility for ensuring the proper financial stewardship of public funds within its control, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable it to deliver its objectives.

# Financial statements audit planning

## Introduction

**11.** The NES annual report and accounts are an essential part of demonstrating the stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we assess any audit risks relating to the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2022/23 audit

**14.** We assess materiality at different levels and the materiality values for NES are set out below in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for NES

Materiality	Amount
<p><b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality is based on our assessment of the needs of the users of the financial statements and the nature of NES operations. For the year ended 31 March 2023 we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2021/22.</p>	£13.2 million
<p><b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.</p>	£8.6 million

Materiality	Amount
<b>Reporting threshold (i.e., clearly trivial):</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. As noted in [paragraph 3](#) above, where such changes occur, we will advise management and, where relevant, report them to those charged with governance.

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

### Exhibit 2

#### 2022/23 Significant risk of material misstatement to the financial statements

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

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>		<p>closing entries. Focus on significant risk areas.</p> <ul style="list-style-type: none"> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focused testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**19.** We have rebutted this risk as the majority of NES income streams comprise of transactions with other NHS bodies which can be agreed to external sources of information. We also consider there is limited opportunity or incentive to manipulate the recognition of this income in the financial statements.

**20.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies* in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**21.** We have rebutted this risk as the main expenditure streams of NES are transactions with other NHS bodies which can be agreed to external sources of information. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

**22.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**23.** As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. The area of specific audit focus relates to the implementation of IFRS 16. The impact of implementing IFRS 16 is to reclassify leases that were previously treated as operating leases, requiring capitalisation of the underlying assets. All future lease payments will need to be recognised as a Right of Use Asset together with a corresponding lease liability in the Statement of Financial Position. An adjustment will also be required in respect of the opening balance.

**24.** Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.



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# Wider Scope and Best Value

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## Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place.

## Wider scope audit focus

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

- **Financial management:** concerned with financial capacity, sound budgetary processes and the operation of the control environment. We will consider the arrangements in place to secure sound financial management including the strength of the financial management culture and achievement of recurring savings. We will also conclude on the arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years), including a focus on the implications of non-recurring funding on longer term strategies.
- **Vision, leadership, and governance:** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by NES. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how NES demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.
- **Climate change:** tackling climate change is one of the greatest global challenges and the Scottish Parliament has set a legally binding target of becoming net zero by 2045. We will gather information on NES's arrangements for responding to climate change including the development of strategies and the monitoring and reporting of progress against targets for reducing emissions.
- **Cyber security** – there continues to be a significant risk of cyber-attacks to public bodies and a number of recent incidents have demonstrated the significant impact they can have on both the finances and operation of an

organisation. In 2022/23, we will consider NES's arrangements for managing and mitigating cyber security risks.

## **Duty of best value**

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

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**28.** Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

**30.** We will provide an independent auditor's report to NES, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide NES and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**31.** [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 June 2023.

## Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2023	27/04/2023
Independent Auditor's Report	30/06/2023*	15/06/2023
Annual Audit Report	30/06/2023*	15/06/2023

Source: Audit Scotland

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



## Timetable

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

**33.** The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**34.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with NES over the course of the audit.

### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited financial statements with complete working papers package.	9 May 2023
Latest submission of unaudited Performance Report and Accountability Report with complete working papers package.	15 May 2023
Issue draft annual audit report for clearance discussion	2 June 2023
Latest date for final clearance meeting with the Director of Finance	6 June 2023
Agreement of audited and unsigned annual report and accounts	6 June 2023
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	8 June 2023
Consideration of audited annual report and accounts and audit reporting by those charged with governance	15 June 2023
Latest date for signing Independent Auditor's Report	30 June 2023

Source: Audit Scotland

## Audit fee

**35.** Following the audit appointment process there has been an increase in our audit fees for 2022/23. This reflects the current audit market and the rising costs of increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**36.** The audit fee for the 2022/23 audit of NES has been set at the baseline level of £75,190 (£61,750 in 2021/22). This audit fee assumes that NES has effective governance arrangements and will prepare comprehensive and accurate annual accounts in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** It is the responsibility of NES to establish adequate internal audit arrangements. In 2022/23, we are not planning to place formal reliance on the work of internal audit, however we shall review all internal audit reports and assess the impact of the findings on our audit approach.

## Independence and objectivity

**38.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

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

**40.** The appointed auditor for NES is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NES.

## Audit Quality

**41.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

**42.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**43.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality, and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved

by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**44.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

# NHS Education for Scotland

## Annual Audit Plan 2022/23

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

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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)