



Public Health Scotland

2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

June 2023



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Key messages

Financial statements audit

Audit opinion	Our independent auditor’s report is unqualified in all regards.
Key audit findings	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are in line with the NHS Accounts Manual and are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>Public Health Scotland (PHS) had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
Audit adjustments	<p>One audit adjustment has been identified in respect of the accounting treatment of the dilapidation costs on the Meridian Court lease. The impact of this has been to reduce net expenditure and net liabilities by £1.6m. Scottish Government funding allocations have also been adjusted to reduce the Revenue Resource Limit and increase the Capital Resource Limit each by £1.6m.</p> <p>No unadjusted differences were identified.</p> <p>We identified disclosure and presentational adjustments, all of which have been reflected in the final set of financial statements.</p>
Accounting systems and internal controls	Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope audit

<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Auditor judgement: Effective and appropriate arrangements are in place</p>  <p>All three key financial targets for the year were met.</p> <p>PHS has effective arrangements in place for financial management and the use of resources.</p>
<p>Financial Sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p>Auditor judgement: Risks exist to achievement of operational objectives</p>  <p>PHS has appropriate arrangements in place for short and medium term financial planning. The financial plan for the three-year period 2023/24 to 2025/26 sets out a balanced position.</p> <p>A large proportion of PHS’s funding from Scottish Government is non-recurring, although the Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation. This uncertainty over recurring funding levels remains a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives.</p>

Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Auditor judgement: Effective and appropriate arrangements are in place



PHS continues to have effective leadership in place.

Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board and Committees continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Appropriate arrangements were put in place to provide the new Chief Executive with the assurances needed to sign the 2022/23 annual report and accounts.

Use of Resources to Improve Outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement: Risks exist to achievement of operational objectives



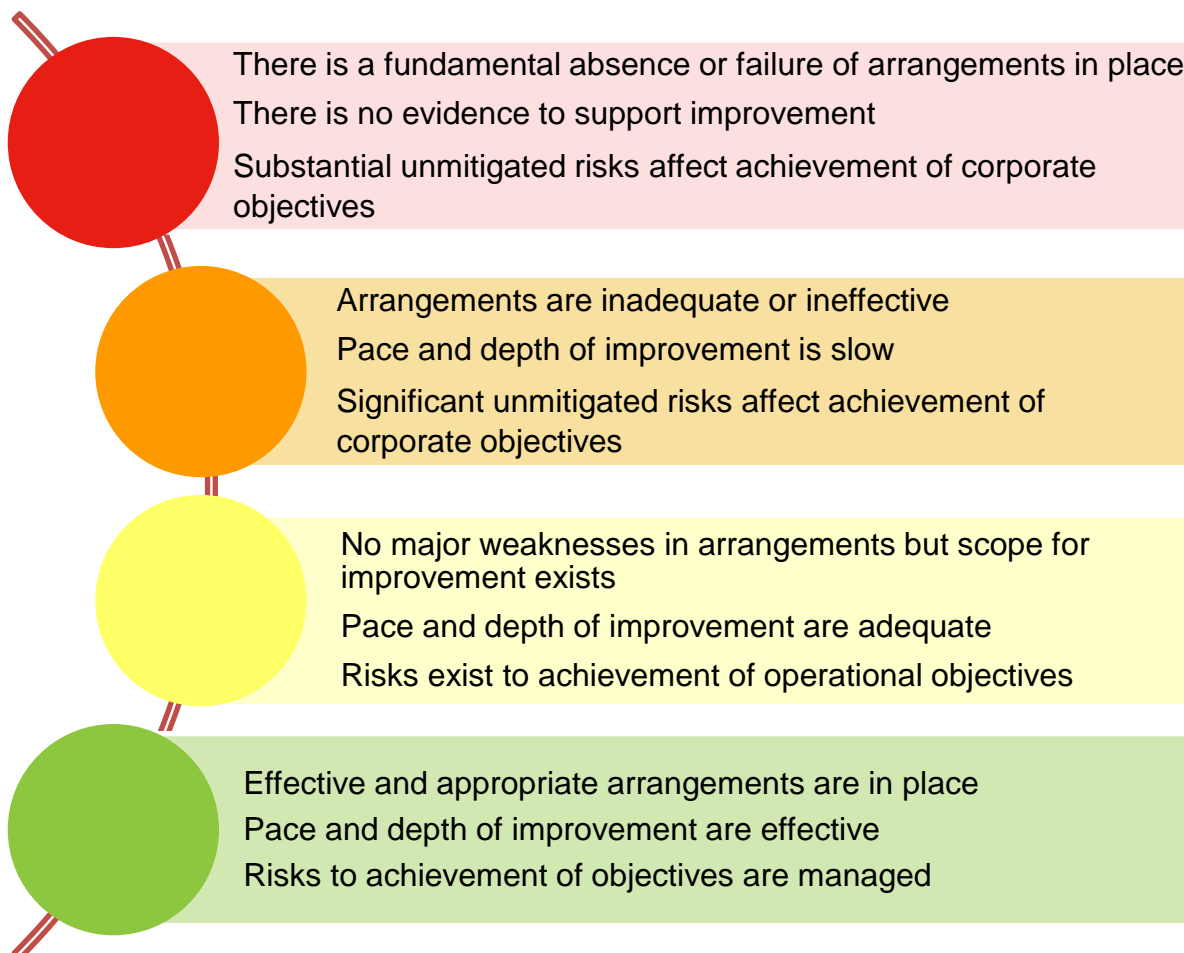
PHS has appropriate performance management processes in place that support the achievement of value for money in the use of resources.

Overall PHS has reported that most of its milestones were substantially delivered by year end, if not fully in line with plan.

PHS has identified a challenge for the organisation to manage those risks and issues more effectively, in order to mitigate the impact on project delivery, as well as drive improvements in how it plans and manages programmes. A significant focus of its 2023/24 delivery plan and 3-year strategic plan is putting in place the programme and project architecture to support delivery of its strategy.

Definitions

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas.



Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual accounts, and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Finance, Audit and Risk Committee (FARC) at the outset of our audit. We have not identified any changes to the risks outlined in that plan.

Responsibilities

PHS is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent throughout our audit and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

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

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts were considered by the Finance, Audit and Risk Committee (FARC) on 21 June 2023 and approved by the Board on 29 June 2023.</p> <p>Our independent auditor’s report is unqualified in all regards.</p> <p>One adjustment was made to the unaudited financial statements arising from the audit. This related to the lease on Meridian Court and is explained under the significant risk on IFRS 16 starting on page 16.</p> <p>We received the unaudited annual accounts and supporting papers of a good standard in line with our agreed audit timetable. Further information and revisions were provided promptly where required. Our thanks go to staff at PHS and NSS for their assistance with our work.</p>
Going concern basis of accounting	<p>When assessing whether the going concern basis of accounting is appropriate in the public sector, the anticipated provision of public services is more relevant to the assessment than the continued existence of a particular public body.</p>	<p>As at 31 March 2023, PHS reported a net liability position of £3.705million. In PHS’s opinion, the organisation will be able to continue for the foreseeable future.</p> <p>We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that PHS will continue to operate for at least 12 months from the</p>

Opinion	Basis for opinion	Conclusions
		<p>signing date. Our audit opinion is therefore unqualified in this respect.</p>
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through the audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to FARC in March 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to PHS. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the

significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls

Significant risk description

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.

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.

This was considered to be a significant risk and Key Audit Matter for the audit.

Risk of material misstatement: Very High

Management override of controls

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override PHS's controls for specific transactions.

Audit procedures

- Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals.
- Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals.
- Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval in line with PHS's journals policy.
- Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Key observations

We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

We identified one key accounting estimate for the audit, which we have considered separately in more detail in the section below.

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

Key risk area

Fraud in revenue recognition

Significant risk description

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*).

The presumption is that PHS could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.

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.

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.

This was considered to be a significant risk and Key Audit Matter for the audit.

Inherent risk of material misstatement:

Revenue (occurrence / completeness): High

Key risk area

How the scope of our audit responded to the significant risk	<p>Key judgements</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>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated the significant income streams and reviewed the controls in place over accounting for revenue. • Considered PHS’s key areas of income and obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
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Key observations	<p>At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for PHS’s revenue resource allocation from Scottish Government. Our conclusion remained the same throughout the audit.</p> <p>Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.</p>
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Fraud in non-pay expenditure

Significant risk description	<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 materially misstated in the financial statements.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High • Accruals (existence / completeness): High
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How the scope of our audit responded to the significant risk	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with</p>
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Key risk area

the recording of accruals and expenditure around the year end.

Audit procedures

- Evaluated the significant non-pay expenditure streams and the design of the key controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Considered PHS's key areas of expenditure and obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Tested accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of expenditure and we are satisfied that expenditure is fairly stated in the financial statements.

IFRS 16 implementation (key accounting estimate)

Significant risk description

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.

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.

Glasgow Office Replacement Project

The Board is currently working on a project to secure a replacement Glasgow office, following the end of the current lease at Meridian Court in September 2023. Depending on the outcome of this project and should the Board decide to relocate, there is the potential for dilapidation costs associated with Meridian Court. In our

Key risk area

External Audit Plan we noted a potential risk as to accounting for such costs in the 2022/23 financial statements.

Inherent risk of material misstatement:

Right of Use Asset (valuation): High

Right of Use Asset (completeness): High

Lease liabilities (valuation): High

How the scope of our audit responded to the significant risk

Key judgements

The implementation of IFRS 16 presented judgement required as to the identification of leases and contracts.

Audit procedures

- Evaluated management processes for reviewing lease arrangements and contracts to determine leases falling within the remit of IFRS 16.
- Tested the completeness and accuracy of the data collected by management and used as part of the implementation of IFRS 16.
- Assessed the key judgements and decisions made about material contracts such as property leases or where lease terms are not prescriptive.
- Reviewed the appropriateness of the discount rate used in the calculation of the lease liability.
- Reperformed the calculation of the lease liability and right of use asset.
- Reviewed 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.

Key observations

We challenged the treatment of dilapidation costs for the Meridian Court lease to ensure these were accounted for in line with IFRS 16.

PHS agreed to fund the dilapidation costs of £1.6million towards the end of the 2022/23 financial year. In the unaudited financial statements these costs were

Key risk area

incorrectly written off directly to expenditure. The financial statements have therefore been adjusted to add these costs onto the value of the leased asset which will be written off over the lifetime of the lease through depreciation. The impact of this has been to reduce net expenditure and net liabilities by £1.6m. Adjustments have also been made to the Scottish Government funding allocations to reduce the Revenue Resource Limit and increase the Capital Resource Limit by £1.6m.

Our audit work did not identify any further issues in respect of the implementation of IFRS 16.

We have reviewed management's estimations and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.

We reviewed the key estimates and judgements that management made in respect of leases for any indication of bias and assessed whether the judgements used by management are reasonable. We have concluded that estimates and judgements are balanced.

Other identified risks

Upgrade to eFinancials

The eFinancial system was upgraded at the start of 2023. There was significant disruption to some elements of the system following this update.

While these issues have now been resolved, we considered these in the context of our audit to determine whether they led to a material misstatement in the 2022/23 financial statements.

Based on the audit work performed, we did not identify any issues in respect of the eFinancial system upgrade that would have a material effect on the financial statements.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional

judgement and is affected by our assessment of the risk profile of PHS and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements 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.

Our initial assessment of materiality for the financial statements was £1.4million. On receipt of the unaudited annual accounts, we reassessed materiality and revised it to the levels as set out in the table below. We consider that our revised assessment has remained appropriate throughout our audit.

	Board £million
Overall materiality for the financial statements	1.3
Performance materiality	0.970
Trivial threshold	0.06

Materiality	<p>Our assessment is made with reference to gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance.</p> <p>Our assessment of materiality equates to approximately 1% of gross expenditure as disclosed in the 2022/23 unaudited annual report and accounts.</p> <p>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.</p>
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Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
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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.

Audit differences

One audit adjustment has been identified in respect of the accounting treatment of the dilapidation costs on the Meridian Court lease. The overall impact on the financial statements was a reduction in net expenditure and net liabilities of £1.6million and is explained under the significant risk on IFRS 16 on page 16 and in Appendix 2.

No unadjusted differences were identified.

We also identified disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses as part of our control testing, we report these in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

Service auditor reports

PHS utilise a number of shared IT systems, IT applications and processes with other Scottish health boards. Assurance reports are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.

Shared service	Service assurance
<p>NHS National Services Scotland Payroll Services</p> <p>NHS National Services Scotland provides payroll services on behalf of Public Health Scotland.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2023 KPMG reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.</p>

Shared service	Service assurance
<p>National IT contract</p> <p>This contract covers the services provided by ATOS IT Services UK Limited e.g. controls over the principal IT service delivery supporting eFinancials.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2023 KPMG reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.</p>
<p>National Single Instance (NSI) eFinancials</p> <p>NHS Ayrshire & Arran provide the eFinancials service with the IT service delivery being provided via the 'National IT contract' including the Real Asset Management system on behalf of all Scottish Health Boards</p>	<p>NHS Ayrshire and Arran procure a service auditor report from BDO. In May 2023 the service auditor report highlighted no critical or significant risk findings and gave an unqualified opinion.</p>

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

Other communications

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year with exception of the implementation of IFRS 16 on leases.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by PHS.

The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, IFRS 16 implementation and accruals. Other than IFRS 16 implementation we have not determined the other accounting estimates to be significant.

Our work on IFRS 16 is included in the section on significant risks above.

In addition, we are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements which are deemed to not be key to the overall financial statements.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and FARC. We have not been made aware of any incidents of fraud in the period nor have any come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting PHS. There are no indications from this work of any significant non-compliance with or material breaches of laws and regulations.

Written representations

We will present a letter of representation to the Board to sign at the same time as the financial statements are approved.

Related parties



We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

Wider Scope

In addition to the audit of the financial statements, Audit Scotland’s Code of Audit Practice requires us to consider the following four areas which reflect the wider scope of public sector audit.

<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Auditor judgement: Effective and appropriate arrangements are in place</p>  <p>All three key financial targets for 2022/23 were met.</p> <p>PHS has effective arrangements in place for financial management and the use of resources.</p>
<p>Financial Sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p>Auditor judgement: Risks exist to achievement of operational objectives</p>  <p>PHS has appropriate arrangements in place for short and medium term financial planning. The financial plan, for the three-year period 2023/24 to 2025/26 sets out a balanced position.</p> <p>A large proportion of PHS’s funding from Scottish Government is non-recurring, although the Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation. This uncertainty over recurring funding levels remains a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives.</p>

Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Auditor judgement: Effective and appropriate arrangements are in place



PHS continues to have effective leadership in place.

Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board and Committees continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Appropriate arrangements were put in place to provide the new Chief Executive with the assurances needed to sign the 2022/23 annual report and accounts.

Use of Resources to Improve Outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement: Risks exist to achievement of operational objectives



PHS has appropriate performance management processes in place that support the achievement of value for money in the use of resources.

Overall PHS has reported that most of its milestones were substantially delivered by year end, if not fully in line with plans.

PHS has identified a challenge for the organisation to manage those risks and issues more effectively, in order to mitigate the impact on project delivery, as well as drive improvements in how it plans and manages programmes. A significant focus of its 2023/24 delivery plan and 3-year strategic plan is putting in place the programme and project architecture to support delivery of its strategy.

Financial management

Financial performance 2022/23

All Boards typically have to work within the resource limits and cash requirements set by the Scottish Government.

All key financial targets were met in 2022/23. PHS made a saving against its core revenue resource limit of £261,000.

Performance against resource limits 2022/23

Financial target	Limit £000	Actual £000	Variance £000
Core revenue resource limit (RRL)	78,108	77,847	261
Non-core revenue resource limit	2,573	2,573	0
Core capital resource limit (CRL)	1,638	1,589	49
Non-core capital resource limit	1,601	1,601	0
Cash requirement	80,035	80,035	0

Financial Outturn

A breakeven budget for 2022/23 was approved by the Board in March 2022. The budget assumed achievement of cash releasing efficiency savings of £4.56million which would be reinvested in innovation or new service provision. At the time, management highlighted three issues / risks around the budget:

- Scottish Government planning guidance was significantly delayed. PHS proceeded with its work and set its budget ahead of other NHS-wide processes.
- As a result of the level of uncertainty in Scotland's ongoing response to COVID-19, PHS could not develop sufficiently detailed plans for how it would mainstream its response to COVID-19.
- Uncertainty around the level of COVID-19 funding. The budget was based on the Scottish Government funding all COVID-19 costs.

A revised budget was presented to both FARC and the Board in August and September 2022 respectively. Throughout 2022/23, PHS continued to forecast a

breakeven position against its revised budget. Key risks to the achievement of this financial outturn included:

- A reducing funding envelope (COVID and Non-COVID) available to PHS.
- Pay increases – the plan assumed some funding would be made available but that PHS may be required to fund part of any increase.
- Risk of further unfunded non-pay inflation was considered to be low and could be managed by PHS.
- Surplus funds were returned to Scottish Government as part of the year-end review with a request for Scottish Government to support carry forward of some of the returned allocations into 2023/24 to offset non-recurring pressures.
- In addition to the core capital allocation of £1.1million, PHS agreed a revenue to capital budget transfer with Scottish Government to allow for the further development of digital assets.

Financial impact of the COVID-19 pandemic

PHS managed to offset COVID costs by £5.4million and returned £4.6million of Scottish Government allocations during 2022/23.

Category	Total costs £m	Funding £m	Variance £m
Test and Protect	3.206	7.631	4.425
Covid-19 expenditure	5.185	5.400	0.215
Total COVID costs to date	8.391	13.031	4.640

Source: Draft Public Health Scotland (PHS) Quarter 4 (Q4) Financial Report

Cash Releasing Efficiency Savings

At the outset, PHS forecast a breakeven position which was predicated on the achievement of £4.56million efficiency savings. PHS achieved this target in the year, with the majority of these savings being achieved on a recurring basis. £0.7million was delivered on a non-recurring basis and will be reviewed and addressed as part of the 2023/24 budget review.

Capital programme

£1.589million was spent on developing data and digital assets in 2022/23 which was funded by PHS core allocation of £1.1million and transfers from revenue to capital as

agreed with the Scottish Government. This has enabled PHS to invest in assets that will support the delivery of vaccinations and surveillance.

Financial management and budgetary control

PHS manages financial risk through monthly scrutiny of the financial position and forecast expenditure plans. NSS Finance meet with Directorates and the Senior Leadership Team so that any changes are included in the detailed projections and that assumptions and risks associated with the figures are captured and managed.

Service level agreement with NSS

PHS has a Service Level Agreement in place with NSS, who has responsibility for the operational finance function.

PHS and NSS are in the process of developing a new agreement. This agreement will look to include aspects not contained in the existing SLA including:

- The development of a more strategic partnership
- The strengthening of PHS strategic leadership capacity specifically in the People and Finance services to support PHS priority work through the creation of three new posts
- Strengthened joint governance arrangements with NSS at strategic and operational levels which would incorporate a more robust approach to performance management of the shared services arrangement
- Further specification of the detail and cost of the services to ensure clarity and establish an agreed baseline.

Internal audit

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

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

Internal Audit's overall Opinion for 2022-23 provides "Significant assurance with minor improvements" on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. No 'high priority' management actions were raised in the period. There were therefore no significant weaknesses requiring to be reported in the governance statement.

Prevention and detection of fraud and irregularity

We found PHS's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

Regular updates on fraud related matters (including Counter Fraud Services updates), and the National Fraud Initiative (NFI) are presented to FARC.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. At the time of writing, PHS has investigated and closed off all matches with no fraud identified.

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

Financial sustainability

Three-Year Financial Plan

A three-year financial plan was presented to the Board in March 2023 for scrutiny and approval. The financial plan sets out a balanced position across the three-year period 2023/24 to 2025/26.

	23-24 Plan £m	24-25 Plan £m	25-26 Plan £m
Core Income	(83.1)	(81.8)	(82.0)
C-19 Income	(10.0)	TBC	TBC
Income Target	(2.5)	(4.1)	(4.9)
Total Income	(95.6)	(85.9)	(86.9)
Core Pay	65.4	66.2	66.9
COVID Pay	7.2	TBC	TBC
Core Non Pay	19.0	18.1	17.6
COVID Non-Pay	2.8	TBC	TBC
Efficiencies	(1.7)	(1.7)	(1.8)
Investment Fund	2.9	3.3	4.1
Net position	-	-	-

Source: PHS three-year plan 2023-26

Assumptions applied in developing the plan

The financial plan is based on the following assumptions:

- A 9.3% baseline uplift
- Other income to be in line with 2022/23 levels, unless otherwise known
- 2% pay award
- 8% vacancy savings

- 3% non-pay cost increases
- 3% efficiency target.

The three year plan highlights the following issues:

- The Board's core income comprises baseline funding of £53.9million in 2023/24 and non-recurring funding of £20.7million. Scottish Government's Health and Social Care Directorates are reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation.
- The Service Level Agreement between PHS and NSS is currently being reviewed. Both parties agreed to continue the existing SLA from 1 April 2023, with a 2% pay inflation per annum being retrospectively applied to the current costs.
- PHS secured a funding envelope for 2023/24 for the continuation of programmes developed during COVID-19 including; vaccinations, respiratory surveillance and VAM Field Epidemiology Team and Whole Genomic Sequencing.
- An investment fund has been created for transforming how PHS works, or to cover new demand.
- Organisational Change expected in 2023/24 will be delivered within the funding envelope available.
- It is assumed that the running costs for new Glasgow accommodation will be cost neutral compared to Meridian Court with a contingency to fund costs such as the move and dilapidations.

Efficiency savings

The Efficiency Savings Target set by Scottish Government reduced from 5% to 3% of baseline funding. PHS's savings target is set at £1.7million which equates to 3% of its baseline funding. PHS has developed an efficiency plan which spans the three-year financial period. The savings achieved will be reinvested in innovation and transformation.

Looking forward

The three year financial plan was submitted to Scottish Government and accepted on the basis that efforts will take place throughout 2023-24 to reduce any additional financial gap arising and follow up on the actions including:

- Further developing saving schemes to meet any unidentified or high risk savings balance.
- Continued collaboration with the Board's SG Sponsorship team to clarify and confirm funding for 2023/24.

PHS is on track to submit its 2023/24 Annual Delivery Plan to the Scottish Government in line with the agreed timetable. Revised financial plans will be presented to both FARC and the Board in Autumn 2023.

In developing its three year financial plan, regular updates were presented to FARC to enable appropriate challenge and scrutiny throughout the year. The financial plan was based upon feedback from FARC, the Board as well as Board Development Sessions.

In earlier drafts of the three year financial plan, deficits were forecast ranging from £4.8million to £5.1million. At the time, management anticipated that internal budget scrutiny and review of efficiency savings would deliver the required efficiency savings to achieve a balanced position and also create capacity to deliver the Board's three year strategy. Further work carried out by the organisation enabled development of a balanced financial plan.

A large proportion of PHS's funding from Scottish Government is non-recurring (c. 28% in 2023/24, baseline £53.9million / £20.7million SG allocations). While Scottish Government is reviewing all allocations to assess those which are appropriate for either baselining or bundling into a bigger allocation, this uncertainty over recurring finding levels presents a significant risk to PHS, in terms of both quantum and flexibility, to its ability to deliver its medium and long term strategic objectives.

Vision, leadership and governance

Leadership

PHS continues to have effective leadership in place, despite a number of changes in senior leadership over the course of the year:

- The Chief Executive, Angela Leitch, retired on 23 March 2023. Paul Johnston was appointed as the new Chief Executive and took up post on 20 March 2023.
- The Director of Strategic Planning and Performance left in August 2022 and Michael Kellet was appointed as Director of Strategy, Governance and Performance (on secondment from Scottish Government) in the same month.
- Two new non-executive directors were appointed to the Board (Carron McDiarmid and Ewan Pow).

PHS inherited a variety of systems and structures from its legacy bodies. In 2021/22, it put in place a new leadership structure. In the next three years it aims to further develop its organisational structure and start a cycle of continuously improving its systems, including its approach to programme and project management. In 2023/24, PHS aims to:

- review the effectiveness of its new staffing structure.
- agree whether a third phase of organisational change is required.
- assess and refine its continuous improvement framework.

2022/23 Annual Report and Accounts

Despite only being in post for 11 days during 2022/23, the new Chief Executive is responsible for signing the 2022/23 Annual Report and Accounts. Appropriate arrangements were put in place to provide him with the assurances he required to enable the signing of the annual report and accounts. These included:

- Meetings and handover with the previous Chief Executive.
- Engagement with the Chair.
- Attendance at FARC and one to one meetings with the Chair of FARC.
- Engagement with Directors and Senior Managers within PHS.
- Meetings with external and internal audit.
- Engagement with Scottish Government.
- Briefing from NSS (as provider of financial services to PHS) and the Director of Strategy, Governance and Performance.

- Review of the assurances provided by each Directorate in the preparation of the Governance Statement.

Governance arrangements

The Board is responsible for ensuring the effective governance of PHS. In driving forward the strategic direction of PHS and ensuring the governance framework is operating as intended, the Board continues to be supported by four committees:

- Finance, Audit and Risk Committee;
- Staff Governance Committee;
- Remuneration Committee; and
- Population Health and Clinical Governance Committee.

A programme of board development sessions and Board / Committee self-assessments have been implemented to enable the Board and Committees to further develop their effectiveness.

In 2021/22, internal audit carried out a Governance Review at PHS. While the review did not raise any findings, there were a number of actions in progress which the FARC asked internal audit to track as part of its follow up process. The most recent follow up report (May 2023) highlighted the following progress:

Area	Progress
Board development sessions	70% complete – will continue through to 2023/24
NED appraisals	Complete
Board meetings – meeting in locations across the country to engage with stakeholders and further understand the wider work of PHS	Complete
Integrated Governance Forum – work plan to strengthen the work of the Board	Complete
Review of Standing Orders and Terms of Reference	Complete
Staff updates in relation to the work of the Board	70% complete – will continue through to 2023/24
Implementation of Committee Management System	70% complete – second phase of implementation to be rolled out in 2023/24.

Board and Committee meetings

Throughout 2022/23, the Board has maintained all aspects of board governance, including its regular schedule of board and committee meetings.

Through our review of committee papers we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the year.

Risk management arrangements

The Finance, Audit and Risk Committee (FARC) provides oversight and scrutiny of risk management activity. The Committee has a standing agenda item to review risk management across the organisation, detailing improvements being made and the key risks for the organisation. This provides the Committee with assurance that risk management is operating effectively and that there is integration between organisational risks and audit activity.

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

The PHS Board receives risk update reports every quarter. The reports include details of risk management improvements, the risks on the corporate risk register and detailed information on any high scoring corporate risks being addressed. This gives the Board the opportunity to review and challenge risk management processes and the key risks facing the organisation. The Board also reviews and approves PHS's appetite to risk annually.

Use of resources to improve outcomes

Strategic Plan 2022 to 2025

PHS published its Strategic plan 2022 to 2025 “A Scotland where everybody thrives: Public Health Scotland’s strategic plan 2022 to 2025” in November 2022.

The plan sets out the organisation’s ambitions for the next three years and includes the actions and impact it aims to deliver in 2022-2025 in line with its agreed missions:

- Prevent Disease
- Prolong Healthy Life
- Promote Healthy and Wellbeing.

The plan identifies the organisation’s top priorities and links these to the 11 national outcome indicators it has identified as being key to improving life expectancy and reducing health inequalities.

Performance Management Arrangements

Performance management framework

Quarterly performance reports are presented to the Board. These reports set out:

- Public Health Scotland’s performance against the outcomes it is seeking to influence (as set out in its Strategic Plan).
- Highlights and challenges the organisation has encountered.
- The organisation’s performance against a set of key indicators.

Through review of Board papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

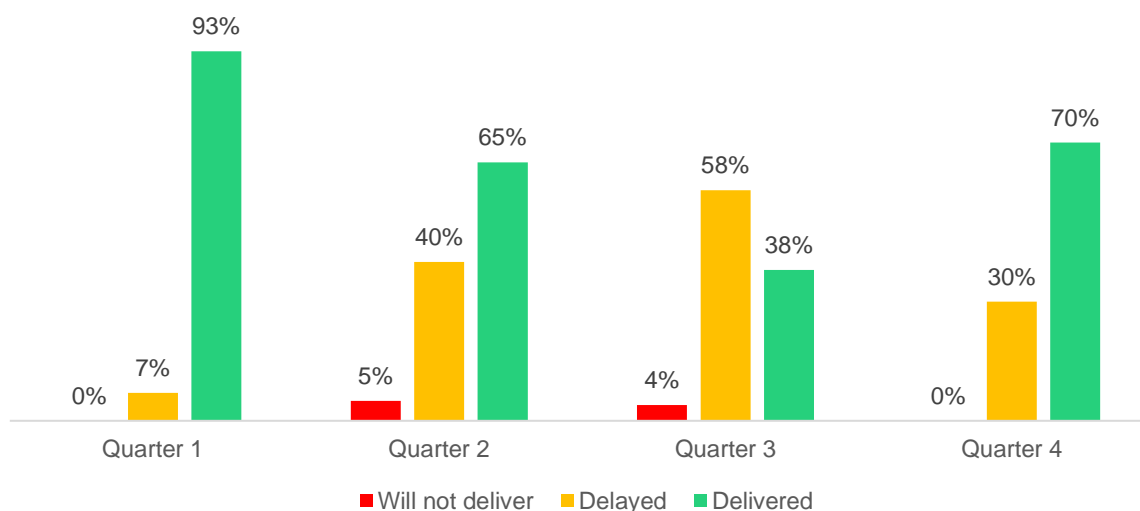
Internal audit review on Key Performance Indicators (KPIs)

As part of its agreed Internal Audit Plan for 2022/23, internal audit carried out a review over the controls in place to monitor Performance KPIs. Internal audit provided an assurance rating of “*Significant assurance with minor improvement opportunities*”. Two medium and two low risk findings were made, to be implemented over 2023/24. Internal audit found that detail within the quarterly performance reports focuses primarily on process milestones with limited updates or benchmarking on movements in outcome measures. The risk identified is that PHS is unable to demonstrate the impact of its work on shared outcomes. Management has agreed to implement actions to address this finding in 2023.

Performance in 2022/23

Performance in 2022/23 focussed on delivering the actions and priorities set out in the delivery plan.

Status of Milestones at Quarter End



Source: PHS Annual Report and Accounts 2022/23

The main issues affecting PHS’s ability to deliver against its strategic delivery plan commitments are workforce challenges, particularly in relation to recruitment and retention of staff with the necessary skills and competencies to deliver the priorities set out in the delivery plan.

This has had an impact on the organisation’s ability to deliver its commitments within the specified timescales. Through Q1 - Q4 the proportion of delayed milestones fluctuated. However, overall PHS has reported that most of its milestones were substantially delivered by year end, if not fully in line with plans.

PHS has identified a challenge for the organisation to manage those risks and issues more effectively in order to mitigate the impact on project delivery and drive improvements in how it plans and manages programmes. A significant focus of its 2023/24 delivery plan and 3-year strategic plan is putting in place the programme and project architecture to support delivery of its strategy.

Climate Change

The Auditor General and Accounts Commission are developing a national programme of audit 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, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

PHS is in the process of developing an action plan for sustainability to progress its corporate aspirations, as well as ensuring compliance with the Climate Emergency and Sustainable Development policy (DL (2021) 38) which was issued to the NHS in Scotland in November 2021.

PHS's action plan is consistent with the six aims set out in the Climate Emergency and Sustainable Development policy and which it continues to embed in its forward planning:

- Ensure that PHS contributes to the achievement of the United Nation's Sustainable Development Goals.
- Ensure that PHS becomes a net-zero greenhouse gas emissions health service by 2040 or earlier where possible.
- Ensure that PHS' assets and activities are resilient to the impacts of a changing climate, particularly extreme weather events.
- Establish a culture of stewardship where natural resources are safeguarded and responsibly used to provide environmentally sustainable healthcare.
- Work as part of the circular economy through designing out waste and pollution, keeping products and materials in use and contributing to the regeneration of natural systems.
- Increased contribution to tackling the ecological emergency and restoring biodiversity.

The annual report setting out progress in delivering its climate and sustainability aspirations and compliance with the Climate Emergency and Sustainable Development policy and recently agreed NHS Climate Emergency and Sustainability Strategy was approved by the Board in February 2023. A strategy and plan is due to be presented to the Public Health and Clinical Governance committee and Board in August 2023 for approval.

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Appendix 1: Responsibilities of PHS and the Auditor

PHS responsibilities

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

Area	PHS responsibilities
Corporate governance	<p>PHS is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>PHS 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</p>

Area	PHS responsibilities
	<p>reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>PHS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. PHS is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>PHS is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>PHS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • 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</p>

Area	PHS responsibilities
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	through effective performance reporting for both internal and external stakeholders.
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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 PHS and others, including Audit Scotland, on the results of our audit work.

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

Wider scope audit work

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

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

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

[Ministerial guidance to Accountable Officers for public bodies](#) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

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>

Independence

The Ethical Standards and ISA (UK) 260 require us to give you full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we confirm that there are no further matters to bring to your attention in relation to our integrity, objectivity and independence as auditors that we are required or wish to draw to your attention.

We confirm that Azets Audit Services and the engagement team complied with FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to PHS for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	Current year	Prior year
	£	£
Audit of Public Health Scotland (Auditor remuneration)	63,730	70,103
Total audit	63,730	70,103
Non-audit services	-	-
Total fees	63,730	70,103

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services have been provided to PHS.

Appendix 2: Audit differences identified during the audit

We are required to inform the Board of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The material misstatement discovered during the course of our audit and which has been adjusted for is summarised in the table below.

Adjusted misstatements

Details of item corrected following discussions with management is as below.

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Adjustment to reflect dilapidation costs for Meridian Court as part of the Right of Use asset	1,601	-	-	(1,601)
Impact on net expenditure					(1,601)
Impact on net liabilities					1,601

Unadjusted misstatements

There are no unadjusted misstatements.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by PHS.

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

No	Detail
1.	Update to notes to the financial statements following reclassification of dilapidation costs
2.	Reclassification of Intangibles additions in year between assets under construction and IT development software
3.	Financial instruments note update
4.	Remuneration Report – remuneration information added for senior management
5.	Staff Report – presentational changes; no overall change to total costs

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

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress PHS has made in implementing the outstanding recommendations raised by the previous auditor. These have all now been actioned.

Recommendations raised in 2021/22

National Fraud Initiative

In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the FARC and staff leading the NFI work to review the NFI self-appraisal checklist for future exercises.

Priority Low **Implementation date** September 2022

Complete

The NFI self-appraisal checklist was completed and presented to FARC in February 2023.

Journal review

We recommend that the system journal approval limit is used for PHS rather than relying on manual controls. That limit should be set at an appropriate level for the organisation to ensure that there is sufficient scrutiny of journals posted through the eFinancials system at an individual journal level.

Priority Medium **Implementation date** September 2022

Complete

PHS reviewed and updated its processes to ensure appropriate controls are in place.

Management Review

We recommend that a detailed review of supporting listings and documents is undertaken prior to preparing the draft annual report and accounts.

We also recommend that the draft annual report and accounts is subject to a detailed review by management prior to submission to audit.

Priority Medium **Implementation date** March 2023

Recommendations raised in 2021/22

Complete

A timetable was prepared by management for the preparation and review of the unaudited annual report and accounts. This includes a full review of the annual report and accounts by the Director of Strategy, Planning and Performance Associate Director of Finance (NSS) prior to submission to external audit.

Recommendations raised in 2020/21 and partially implemented in 2021/22

Governance and Scrutiny

Following development sessions, a summary document highlighting the 'key takeaways' of what was discussed and future actions should be presented to the Board.

Priority

Low

Implementation date:

August 2021

Complete

Summary papers are now prepared following development sessions.

Governance and Scrutiny

A programme of self-assessment should be established for the Board and its committees.

Priority

Medium

Implementation date:

December 2021

Complete

Self-assessments are now being carried out for Committees.



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