

NHS Education for Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS Education for Scotland and the Auditor General for Scotland

June 2023

Contents

Key messages	3
Introduction	4
1. 2022/23 annual report and accounts	6
2. Financial management	11
3. Financial sustainability	15
4. Vision, leadership and governance	17
5. Use of resources to improve outcomes	20
Appendix 1. Action plan	23

Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.

Financial management and sustainability

- 2 NES operated within its Revenue Resource Limit of £622 million for the 2022/23 financial year.
- 3 No issues have been identified with the systems of internal control and we have concluded that NES has appropriate budget monitoring and fraud detection arrangements in place.
- 4 NES have effective and appropriate financial arrangements in place to continue to deliver services and ensure financial sustainability. This includes a three-year financial strategy which identifies small but increasing funding gaps each year.

Vision, leadership and governance

- 5 NES has a clear vision, strategy and priorities, which have just been updated for 2023-26 and approved by the Board.
- 6 NES has effective and appropriate governance arrangements, however key climate change targets have not yet been set and a climate change strategy is not in place.

Use of resources to improve outcomes

- 7 The current performance management framework is unmanageable and is being replaced and refined.
- 8 NES has an appropriate and effective best value framework in place.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS Education for Scotland (NES). This report is addressed to the board of NES and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

2. The scope of the audit was set out in an Annual Audit Plan presented to the April 2023 meeting of the Audit and Risk Committee. This annual audit report comprises significant matters arising from the audit of the NES annual report and accounts and conclusions on the wider scope areas, as set out in the [Code of Audit Practice 2021](#).

Audit appointment from 2022/23

3. I, Carole Grant, have been appointed by the Auditor General for Scotland as the auditor of NES. The 2022/23 financial year was the first of my five-year appointment.

4. My team and I would like to thank directors and staff, particularly those in finance, for their cooperation and assistance and we look forward to continuing to work together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NES has primary responsibility for ensuring the proper financial stewardship of the public funds within its control. This includes preparing the annual report and accounts in accordance with the accounts direction from Scottish Ministers. NES is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000; the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. This report contains an agreed action plan at [Appendix 1](#). Weaknesses or risks identified in this report are only those which have come to our attention during our audit work and may not be all that exist. Communicating these does not absolve management of NES from its responsibility to address the issues we raise and from maintaining adequate systems of control.

Auditor Independence

8. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £75,190, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

9. We add value to NES by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Audit opinions on the annual report and accounts are unmodified

10. The board approved the annual report and accounts for NES for the year ended 31 March 2023 on 29 June 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited accounts were received in line with the agreed timetable but the performance report was delayed

11. The unaudited accounts were received in line with our agreed audit timetable on 9 May 2023, however the performance report was not received in line with our original deadline of 15 May 2023, instead being received on 19 May 2023. This led to some delays in reviewing the performance information however it has not impacted on our ability to complete the audit in line with agreed timescales.

Overall materiality was revised on receipt of the unaudited annual report and accounts to £14.5 million

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. The overall materiality threshold was set with reference to gross expenditure. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Planning Materiality	Revised Materiality
Overall materiality	£13.2 million	£14.5 million
Performance materiality	£8.6 million	£9.4 million
Reporting threshold	£250,000	£250,000

Source: Audit Scotland

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.

Our audit work addressed the identified risks of material misstatement

15. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements. We also summarise the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risks of material misstatement

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</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 otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity. • Test journal entries and other adjustments during the financial year, at year-end and post-closing entries. Focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions at the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments. 	<p>Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices, as well as a review of accounting estimates and transactions for appropriateness.</p> <p>Conclusion: No incidents of management override of controls were identified.</p>

Source: Audit Scotland

16. In addition, we identified one other area of audit focus in our 2022/23 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. The area of specific audit focus related to the implementation of IFRS 16. The impact of implementing IFRS 16 was to reclassify leases that were previously treated as operating leases, requiring capitalisation of the underlying assets. All future lease payments have been recognised as a Right of Use Asset together with a corresponding lease liability in the Statement of Financial Position. An adjustment was also required in respect of the opening balance.

17. We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit including our view about the qualitative aspects of the body's accounting practices.

19. We have two issues from the audit and these are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Provisions – dilapidations</p> <p>Note 13 of the financial statements records a dilapidations provision of £3.7 million (2021/22: £4 million) reflecting the estimated future costs of returning four leased properties to their original condition. Two of the properties are based on assessments undertaken in 2014 (£3.49 million) and one at 2017 (£0.2 million).</p> <p>The previous external auditor recommended that management obtain an updated assessment to ensure the provision reflects the current cost of the refurbishment required. A full review was not undertaken in advance of the 2022/23 accounts being prepared.</p>	<p>We discussed the issue with management, and it was agreed that a full review will be undertaken in advance of finalising the 2023/24 financial statements.</p> <p>We are content that this does not represent a material misstatement for the 2022/23 financial statements.</p> <p>(Recommendation 1)</p>
<p>2. Junior Doctors' pay award</p> <p>In May 2023, junior doctors across Scotland were offered a 14.5 per cent pay uplift over the two-year period 2022-24, including an additional 3 per cent uplift for 2022/23. When the offer was made NES estimated that the impact of this pay award would be around £21.6 million in total with £9.6 million relating to 2022/23.</p> <p>On 13 June 2023 the pay offer was rejected, however recent Scottish Government guidance has indicated that they will provide for any 2022/23 costs and health boards will be fully funded if the offer is subsequently accepted.</p>	<p>We are content that this does not represent a material misstatement for the 2022/23 financial statements.</p> <p>As noted, this would be fully funded by the Scottish Government so would have no net impact on the overall financial position of NES.</p>

Source: Audit Scotland

There were three small misstatements identified within the financial statements

20. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

21. Total gross misstatements identified were £0.31 million. One misstatement was amended in the revised financial statements. The remaining two misstatements were below our reporting threshold and were not adjusted. We considered whether further audit procedures were required and reviewed the nature and causes of these misstatements, which mainly relate to accounting for non-current assets. We have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

22. The net effect of the unadjusted errors on the primary statements is to increase expenditure by £0.14 million and decrease balance sheet net assets and reserves by the same amount £0.14 million.

Some progress was made on prior year recommendations

23. There were three audit recommendations identified by Grant Thornton, NES' previous external auditor, with one now addressed, one in progress and one outstanding. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

NES operated within its Revenue Resource Limit of £622 million for the 2022/23 financial year.

NES has appropriate budget monitoring and fraud detection arrangements in place.

No issues have been identified with the systems of internal control in operation for 2022/23.

NES operated within its Revenue Resource Limit (RRL) of £622 million

24. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements. In each year, NHS Boards have 1 per cent flexibility on their annual resource budget to allow scope to marginally under or over-spend. An overspend in-year is offset by an additional SGHSCD funding allocation, reported as 'financial flexibility', which allows Boards to meet annual financial targets within a three-year framework.

25. [Exhibit 4](#) shows that the NES operated within its limits during 2022/23 and did not make use of financial flexibility arrangements allowed by SGHSCD.

Exhibit 4

Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core revenue resource limit	619.94	617.93	2.01
Non-core revenue resource limit	2.04	2.04	0
Total revenue resource limit	621.98	619.97	2.01

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core capital resource limit	2.61	2.61	0
Total capital resource limit	2.61	2.61	0
Cash requirement	613.98	613.98	0

Source: NES Annual Report and Accounts 2022/23

Budget processes were appropriate

26. At December 2022, NES budget reporting forecast underspends of £4.8 million, and continued to forecast underspends for the remaining three months of the year. The underspend decreased by £2.8 million from December 2022 primarily due to a change in funding allocations agreed with the Scottish Government. In March 2023, NES returned £4.7 million non-recurring funding to the Scottish Government together with a further £0.65 million as a result of slippage in projects. The board agreed a savings target of £2.8 million which was achieved.

27. The total revenue resource limit increased by £52.9 million in 2022/23 compared to the 2021/22 position. It should be noted that of the total revenue resource limit of £622 million, £70.6 million was earmarked recurring funding for specific projects and £50.5 million was non-recurring funding for specific projects. So while NES funding has increased year on year, a significant proportion was earmarked for specific purposes or was non-recurring. This limits NES's ability to manage its budget flexibly.

28. The Board receive quarterly financial monitoring reports and the executive team receive monthly updates. We have not identified any issues with the budget monitoring processes within NES.

NES has appropriate financial control arrangements in place and there were no significant control issues identified by key providers of financial systems

29. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal financial control put in place by management. We carried out a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach.

30. A part of our overall audit approach we rely on assurances from key service providers. This includes:

- NHS National Services Scotland provision of primary care payments and the national IT contract

- NHS Ayrshire & Arran provision of the National Single Instance eFinancials service
- NHS Tayside uprating of annual pay awards in the E-payroll system hosted by NHS National Services Scotland.

31. We considered the evidence from service auditor's assurance reports and other auditor assurances for 2022/23 and did not identify any significant risks of material misstatement within the financial statements arising from these services.

32. An assurance gap has been identified for the IT general controls, system backup and disaster recovery for the NSI eFinancials system. These are not covered by any of the current service audit arrangements. This did not result in an audit risk in 2022/23 but is an area that needs resolved for NHS Scotland.

33. Overall, we concluded that NES has appropriate financial control arrangements. We did not identify any internal control weaknesses which affected NES' ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Standards of conduct for prevention and detection of fraud and error are appropriate

34. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

35. Our conclusion is that NES has adequate arrangements in place to prevent and detect fraud or other irregularities. This is based on our review of:

- control arrangements
- overall policies and procedures
- Counter Fraud Service Reports
- post payment verification reporting
- the national fraud initiative
- internal audit reports.

36. NES actively engage with the National Fraud Initiative and have conducted a high-level review of matches with no significant issues identified. The self-appraisal checklist has also been completed and reviewed by the Audit and Risk Committee.

37. NES investigated three cases of potential fraud in 2022/23 which have also been reported to Counter Fraud Services. Two of the investigations reported no evidence of fraud, however the third case highlighted fraudulent activity with a member of NES staff working for another health board while on paid sick leave from NES. This is being handled internally in line with NES policies and procedures and no criminal case has been raised.

3. 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.

Conclusions

NES have effective and appropriate financial arrangements in place to continue to deliver services and ensure financial sustainability.

NES have developed a three-year financial strategy which identifies small but increasing funding gaps each year.

Total revenue funding to NES has increased from last year but financial flexibility is limited by the extent of ring fenced and non-recurring funding

38. As highlighted in Audit Scotland's [NHS in Scotland 2022](#) report, the financial position is concerning across the health sector. Revenue funding to NES increased in cash terms by 9.3 per cent and in real terms by 3.1 per cent, however a significant proportion of this is either ring fenced for specific purposes (11 per cent) or non-recurring funding (8 per cent), which limits financial flexibility.

39. A range of financial pressures are presenting a significant challenge for all health boards. These include inflation, rising energy costs and pay pressures. Staff expenditure for NES increased by £28.4 million in 2022/23 on the previous year (16 per cent increase) mainly due to a growth in trainee numbers. A further increase in total staff costs of £10.5 million is expected in 2023/24.

NES has prepared a medium-term financial plan that identifies future funding gaps

40. NES 2022/23-2024/25 financial plan was submitted to the Scottish Government in July 2022. The Board's forecast includes additional costs relating to non-pay inflation and staff costs as well as significant pressures due to the level of non-recurrent funding. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth with additional funding required from the Scottish Government to support these. The financial plan follows the Scottish Government standard template.

41. NES 2023/24 Budget and Financial Plan was approved by the Board in March 2023 and forecasts a small funding gap of £83,000 which is expected to be underwritten by the Scottish Government. The budget allocation includes a 5.1 per cent baseline uplift on the previous year based on increased inflation and staff cost pressures. This also includes a requested carry forward £1.65 million in funding from 2023/24 to 2024/25 and an unidentified savings target of £0.4 million to be identified during 2023/24.

42. The Scottish Government require Boards to submit a three-year Financial Plan. Funding assumptions have been based on guidance provided centrally. The latest three-year plan (2023/24-2025/26) was approved for submission to the Scottish Government in March 2023. The funding gap in 2024/25 is reported as £210,000 and in 2025/26, £621,000. Savings for the remaining financial gaps in future years have not yet been identified however this will progress over time as more budget information becomes available. If funding is not increased to meet these gaps, then a savings plan will be developed to balance this position.

4. Vision, leadership and governance

Public sector 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.

Conclusions

NES has a clear vision, strategy and priorities, which have just been updated for 2023-26 and approved by the Board.

NES has effective and appropriate governance arrangements.

Key climate change targets have not yet been set and a climate change strategy is not in place.

NES has a clear vision and strategy

43. NES Strategy 2019-24 set out the vision of the organisation which is to have a skilled and sustainable workforce for a healthier Scotland. This is supported by the following five key strategic themes:

- A high-quality learning and employment environment
- National infrastructure to improve attraction, recruitment, training, and retention.
- Education and training for a skilled, adaptable, and compassionate workforce.
- A national digital platform, analysis, intelligence, and modelling.
- A high performing organisation (NES).

44. In our review of the NES strategy 2019-24 we have concluded that there is a clear vision in place, which is supported by appropriate strategic themes.

45. A revised strategy, covering the period 2023 - 2026 was presented to the May 2023 Board for approval. The new strategy was developed in consultation with NES staff and key partners such as COSLA and Health and Social Care

Partnerships. The strategy reflects the close working with the Scottish Government to agree the medium-term delivery priorities for NES which, in turn, form part of the strategic commitments.

Governance arrangements are appropriate

46. NES governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

47. Board minutes and papers are published on the website in advance of each Board meeting.

48. Scrutiny arrangements are working well in NES and we have witnessed this through regular attendance at Audit and Risk Committee meetings and regular review of committee minutes and papers.

Cyber Security arrangements are improving within NES

49. We have performed a high-level review of ICT and Cyber security arrangements within NES as part of our audit work in 2022/23. NES are subject to regular audits under the Network and Information Systems (NIS) Regulations 2018 which covers the areas of cyber security and business continuity, therefore, to minimise duplication of work we have reviewed the findings of this audit for any areas of risk that may impact on our audit approach.

50. Based on this review, and the risk registers in place, NES are aware of the cyber security risks posed and have put mitigating controls in place to address these. Recommendations are being followed up through relevant governance committees. The NIS audit noted a good level of improvement in cyber security arrangements within NES over the past 3 years.

Climate change arrangements

51. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

52. NES does not presently have a climate change strategy, nor any formalised emission reduction targets, however a Climate Emergency and Sustainability Group has recently been established which will take this work forward. The membership and terms of reference for this group are still being finalised and will be reviewed in due course. Any climate change targets will be linked to NES Strategy 2023-26. NES' contribution will be focussed mainly on supporting the NHS in general through education and training in the effort to reduce the carbon footprint. More work has still to be done on measuring the impact of climate change on NES' financial statements.

Recommendation 2

There is a challenging climate change target to achieve by 2030. NES should ensure appropriate action is being taken to set targets, monitor and report on these targets to ensure progress towards 2030 and the legally binding net zero target in 2045.

53. We also note that NES is considering how it can use its position as the training provider for health and social care within the NHS to embed climate action in Scotland's health education, and how the impact of this can be measured effectively.

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

5. Use of resources to improve outcomes

Public sector 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.

Conclusions

The current performance management framework is unmanageable and is being replaced and refined.

NES has an appropriate and effective best value framework in place.

The current performance management framework is unmanageable and is being replaced and refined

55. During 2022/23, NES reported quarterly to the Board on performance against targets aligning with the 2019-24 Strategy. This includes reporting against 549 performance measures on a RAG basis with statuses ranging through red, amber, green and blue. Based on the quarter 4 performance report, the performance against the targets was as follows:

- 27 targets were red, meaning progress is unsatisfactory. This reflects that the target is more than 10 per cent away from the stated goal and / or is delayed by more than 3 months
- 46 targets were amber, meaning progress is partially unsatisfactory. This reflects that the target is 10 per cent or less from the stated goal and/or is delayed by less than three months
- 384 targets were green, meaning progress against this target / outcome has been satisfactory and ongoing, with 100 per cent of the target on track and within timescales
- 92 targets were blue, meaning work against these targets is fully complete.

56. The quarterly performance reports further align these 549 targets to each of the 5 strategic themes within the NES strategy 2019-24, to show how progress against these targets impacts on the delivery of the strategy. Of the 27 'red' rated risks, the majority relate to recruitment and capacity challenges which is recognised as a corporate risk.

57. It has been previously reported that having so many targets is unmanageable and makes assessing performance inefficient. We would agree with this assessment and we are pleased to report that NES have been reviewing their approach to performance management in parallel to the development of their new strategy for 2023-26 to develop a more concise and manageable suite of key performance indicators.

58. The draft NES Strategy 2023-26 was presented to the Board in May 2023 and draft KPIs were presented alongside this. The new NES strategy will focus on three key themes of People, Partnership and Performance and this will be measured by considering 4 key questions:

- How well do we support our staff?
- How well do we support our learners / trainees?
- How well do we meet the needs of our partners?
- How well do we perform as an organisation?

59. NES have developed a suite of 41 performance measures to aid the monitoring of progress against the above questions. There will be a period of transition while the relevant data is collected and analysis mechanisms are developed. The first report measuring performance against this new suite of KPIs is due to be presented to the Board at the August 2023 meeting for quarter one of the 2023/24 financial year. Not all data will be available by then, with target dates set between August 2023 and May 2024. We will continue to review performance reports on an ongoing basis and report any findings as necessary.

The Performance Report could be improved to aid transparency

60. In addition to the audit opinion on the performance report we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and is an essential element in helping stakeholders understand the financial statements. The performance report is therefore an opportunity for the organisation to 'tell its story' and enhance openness and transparency.

61. We concluded that NES's performance report met the requirements of the FReM but that improvements could be made to the narrative to provide a more rounded picture of what has been achieved during the year linked into the funding provided. We considered that the report could be further developed to

provide a more accessible overall assessment of whether priorities are being delivered and aims are being achieved, and the contributions being made to outcomes as a result. Presentation would also be enhanced by better linking of the individual sections.

62. Public bodies are required to identify and report performance measures to demonstrate their effectiveness and efficiency in service delivery and the benefits they provide to the public. NES's performance report provides a range of information covering the activities of the organisation.

63. NES acknowledges that there is further room for improvement in the transparency of the reporting. Further changes will enhance reporting to the Scottish Parliament and the public and help strengthen accountability and scrutiny.

Recommendation 3

NES should review their performance report process for 2023/24 to ensure it provides transparency around the achievement or otherwise of objectives and is clear and understandable.

NES has an appropriate and effective best value framework

64. [*Ministerial guidance to Accountable Officers*](#) for public bodies and the [*Scottish Public Finance Manual*](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

65. We have identified no issues relating to best value in our work carried out in 2022/23. NES prepare an annual review against the best value characteristics which is presented to the Audit and Risk Committee detailing work carried out in the year to meet each of the characteristics. Best value is built into the NES procurement strategy, to ensure achievement of best value in all procurement activity. The NES Board also received a presentation on best value from Audit Scotland colleagues in April 2023 as part of a board development session, to explore ways in which the approach to best value could be improved.

Appendix 1. Action plan

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Provisions - dilapidations</p> <p>The provision for dilapidations is based on out-of-date assessments.</p> <p>Risk. There is a risk that the amount provided is understated and that it does not meet the necessary dilapidation cost.</p>	<p>NES should review the provision for dilapidations and provide a more up to date estimate of the remedial costs.</p> <p>Exhibit 3, point 1</p>	<p>Work has already commenced to review all the dilapidations valuations and will be completed for inclusion in the 2023/24 Annual Accounts</p> <p>Responsible officer Director of Finance</p> <p>Agreed date 31 March 2024</p>
<p>2. Climate change</p> <p>There is a challenging climate change target to achieve by 2030.</p> <p>NES does not presently have a climate change strategy, nor any formalised emission reduction targets.</p> <p>Risk. There is a risk that NES does not contribute towards the achievement of the challenging targets.</p>	<p>NES should ensure appropriate action is being taken to set targets, monitor and report on these targets to ensure progress towards 2030 and the legally binding net zero target in 2045.</p> <p>Paragraph 52</p>	<p>This will be part of the work programme for the Climate Emergency and Sustainability Group during 2023/24.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date 31 March 2024</p>
<p>3. Performance report</p> <p>The performance report could be improved by providing a more rounded picture of what has been achieved during the year linked into the funding provided.</p> <p>In addition, the report could be further developed to</p>	<p>NES should review their performance report process for 2023/24 to ensure it provides transparency around the achievement or otherwise of objectives and is clear and understandable.</p> <p>Paragraphs 60-63</p>	<p>Work is already well underway and will form an initial report to the NES Board in August 2023, with further work ongoing on a full rollout in the remainder of 2023/24</p> <p>Responsible officer Director of Planning & Performance</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>provide an overall assessment of whether priorities are being delivered, whether aims are being achieved, and the contributions being made to outcomes.</p> <p>Risk. There is a risk that NES' performance report lacks clarity and fails to tell the full story about its performance.</p>		<p>Agreed date</p> <p>First phase rollout by 31 August 2023, full completion by 31 March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action / timing
<p>b/f 1. Provisions Calculations</p>	<p>NES recognise a provision of £3.730m in respect of dilapidations. These provisions are based on external assessments carried out by Lothian Built Environment Services in 2014. We would recommend that management obtain an updated assessment that reflects the current cost and condition of the properties</p>	<p>Outstanding</p> <p>This action has not been completed. Discussions with management highlighted that this will be completed in 2023/24.</p> <p>See recommendation 1 above</p>
<p>b/f 2. Financial Planning Arrangements</p>	<p>The Board are due to submit a medium-term financial plan to the Scottish Government in July 2022. However, this has yet to be developed and we are therefore unable to conclude on the medium to longer term financial outlook.</p>	<p>Complete</p> <p>The medium-term financial plan was submitted to the Scottish Government in July 2022, and we have reviewed this during the audit process.</p>
<p>b/f 3. Performance Targets</p>	<p>There are 601 performance targets in total, with 111 being designated as priority targets. All priority Red and Amber targets were reported to the Board, which resulted in over</p>	<p>In Progress</p> <p>NES have developed a suite of 41 performance measures which were agreed by the Board in May 2023 alongside the</p>

Issue/risk	Recommendation	Agreed management action / timing
	<p>50 targets being reported, which makes it difficult to effectively assess performance.</p> <p>There is an opportunity to enhance reporting to the Board by developing a suite of Key Performance Indicators that target key achievements.</p>	<p>new NES Strategy 2023-26. Reporting against these to the Board will be in Q1 of 2023/24, however there will be a transition period where some data may not be available.</p> <p>See paras 55-59 above</p>

NHS Education for Scotland

2022/23 Annual Audit Report

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

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk