

NHS National Services Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS National Services Scotland and the Auditor General for
Scotland
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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 There were no material adjustments to the unaudited financial statements, however there were challenges in the audit process that will be addressed moving forward.

Financial management and sustainability

- 3 NHS NSS operated within its revised Revenue Resource Limit of £719 million supported by effective financial management.
- 4 There is a robust control environment in place, including assurance from service auditors, but NHS NSS should address the control weaknesses reported in our interim management letter.
- 5 The approach to budget setting was strengthened in 2023/24 and NHS NSS developed a three-year financial plan with a balanced budget for 2023/24.
- 6 NHS NSS is continuing to engage with the Scottish Government on the extent of non-recurring funding it receives.

Vision, leadership and governance

- 7 NHS NSS has a clear vision supported by prioritised corporate and operational planning for finance, workforce and estates.
- 8 Governance arrangements are appropriate.

Use of resources to improve outcomes

- 9 There is effective performance management framework in place to support the achievement of targets.
- 10 NHS NSS continues to develop and deliver shared services for NHS Scotland.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS National Services Scotland (NHS NSS). This report is addressed to the board of NHS NSS 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 February/May 2023 meeting of the Audit and Risk Committee. This annual audit report comprises significant matters arising from an audit of NHS NSS's annual report and accounts and conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#).

Audit appointment from 2022/23

3. I, Carole Grant, have been re-appointed by the Auditor General for Scotland as auditor of NHS NSS for the period from 2022/23 until 2026/27. The 2022/23 financial year was the third year of my audit 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. NHS NSS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS NSS 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 and 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 normal audit work and may not be all that exist. Communicating these does not absolve management of NHS NSS from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

8. We can 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 £234,700, 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 NHS NSS 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. Audit of 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, i.e. the financial statements and related reports are free from material misstatement.

There were no material adjustments to the unaudited financial statements however there were challenges in the audit process that will be addressed moving forward.

Audit opinions on the annual report and accounts are unmodified

10. The board approved the annual report and accounts for NHS NSS for the year ended 31 March 2023 on 30 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.

Overall materiality was reviewed on receipt of the unaudited annual report and accounts and remains at the planning level of £13.8 million

11. Broadly, 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 hence impact their 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.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£13.8 million
Performance materiality	£6.9 million
Reporting threshold	£250,000

Source: Audit Scotland

13. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

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 50 per cent of overall materiality, reflecting the risk of classification errors, which were identified in 2021/22.

15. 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.

Significant findings and key audit matters

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

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

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

Issue	Resolution
<p>1. Management review of accounts</p> <p>We identified some issues that indicate the need for further management review of the year-end accounts to ensure the accuracy of the financial statements:</p> <ul style="list-style-type: none"> • There was a £10.8 million difference between the general ledger and the unaudited financial statements. This was due to an adjustment that management had made in the accounts for pandemic stock but had not journalled in the general ledger. • The year-end accrual journal for NHS NSS's digital expenditure was posted incorrectly and reversed three times. • There was a £9.6 million classification adjustment for IFRS 16 between Procurement, Commissioning & Facilities and Property Services. • A £0.9 million VAT recovery on non-current assets was incorrectly classified as a transfer between intangible assets and property, plant and equipment. • There was a £0.5 million classification error as an intangible asset under development was incorrectly classified as a tangible asset under construction. • Significant additional audit work was required to corroborate the capital commitments' disclosure. 	<p>Adjustments were made to the general ledger and the financial statements to address these issues.</p> <p>Recommendation 1</p>

Issue	Resolution
<p>2. Provisions</p> <p>There is a £8 million provision for backlog maintenance for leased assets. It was anticipated that £3.5 million would be released from this provision, in 2022/23, however there was no expenditure this year.</p> <p>Given the inherent subjectivity in calculating provisions a robust formalised review of backlog maintenance should be in place to support the appropriateness of the provision value.</p>	<p>Significant additional audit work was required to obtain sufficient evidence to justify management's estimation of the provision.</p> <p>Recommendation 2</p>
<p>3. NHS Louisa Jordan Stock</p> <p>NHS NSS holds the remaining stock from the NHS Louisa Jordan Hospital, which was established during the Covid-19 pandemic. NHS NSS retains £1.5 million of stock, however this has been fully impaired and is not recognised on the statement of financial position.</p> <p>Our on-site warehouse testing identified that none of the NHS Louisa Jordan stock was recorded on the Red Prairie stock management system. Instead, this stock, and the issue of this stock to NHS boards, was managed using a series of spreadsheets.</p>	<p>NHS NSS ensured that the tagged Louisa Jordan stock held in NHS NSS's warehouses was recorded in the red Prairie stock management system in June 2023.</p>
<p>4. Extent of changes to the remuneration report</p> <p>Audit testing identified a number of amendments were required due to inaccuracies when considering the underlying documentation and inconsistencies with the Government Financial Reporting Manual (FRoM) requirements.</p> <p>Although none of the amendments required were significant, the volume indicates the need for arrangements to be strengthened.</p>	<p>The remuneration report has been updated to reflect the audit findings and is now compliant with the FRoM.</p> <p>Recommendation 3</p>

Source: Audit Scotland

Our audit work responded to the identified risks of material misstatement

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we

identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

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 process about inappropriate or unusual journal activity. • Test journal entries and other adjustments during the financial year, at the 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 around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments. 	<p>There remains a lack of management review and approval of journal entries as reported in our management letter.</p> <p>We did not identify any incidents of management override of controls from our testing of journals, year-end transactions, accruals and prepayments.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be reasonable.</p> <p>Conclusion: Satisfactory</p>
<p>2. Estimation in the valuation of land and buildings.</p> <p>NHS NSS holds land and buildings with a value of £55 million.</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities and objectivity of the professional valuer. • Obtain an understanding of management's involvement in 	<p>We reviewed how management engages with the external valuer.</p> <p>We assessed the valuer and confirmed that they are competent and</p>

Audit risk	Audit Response	Conclusion
<p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that NHS NSS ensures the financial statements accurately reflect the value of the land and buildings.</p>	<p>the valuation process to assess if appropriate oversight has occurred.</p> <ul style="list-style-type: none"> • Critically assess the approach NHS NSS has adopted to assess the risk that assets not subject to valuation are materially misstated. Consider the robustness of that approach. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2022/23 are not materially misstated. Critically assess the appropriateness of any assumptions. • Critically assess the adequacy of NHS NSS's disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<p>appropriately qualified for their role.</p> <p>The results from the valuation exercise were correctly recorded in the financial ledger and the annual report and accounts.</p> <p>We assessed the approach taken by the valuer in respect of desktop valuations in-year and confirmed that these were reasonable.</p> <p>Conclusion: Satisfactory</p>
<p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies.</p> <p>This is a significant risk for NHS NSS due to the complexity and number of expenditure streams, including the procurement and contracting NHS NSS undertakes on behalf of other NHS Boards.</p>	<ul style="list-style-type: none"> • Analytical procedures over expenditure streams to support detailed testing. • Detailed substantive testing of payments made under contracts, including those of personal protective equipment (PPE). • Detailed substantive testing of expenditure transactions across the financial year. • Substantive testing of post-year end payments to confirm they have been recorded in the correct financial year (cut-off). 	<p>Detailed testing of expenditure transactions was undertaken.</p> <p>Conclusion: Satisfactory</p>

Source: Audit Scotland

20. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **IFRS 16 Leases Implementation:** The implementation of the new IFRS 16 standard by which NHS NSS will recognise their leases as right-of-use assets, with a corresponding lease liability in the Statement of Financial Position. We reviewed the IFRS 16 opening balance adjustments and the presentation and disclosure in the 2022/23 accounts. A small number of adjustments were made. We confirmed that these were in line with IFRS 16 and supplementary guidance.
- **Inventories Valuation:** We recognised a risk around pandemic inventories, due to the volume, value and varying costs across suppliers, type and timing of inventories. We assessed how NHS NSS values its inventories, including pandemic stock and the process to identify obsolescent inventories. We did not identify any significant issues.
- **eFinancials ledger upgrade:** In January 2023, there was an upgrade to the eFinancials general ledger used by NHS boards, including NHS NSS. Following this upgrade, all NHS Boards had difficulties with some financial processes, including the process of purchase invoice payments. We substantively tested payments made during the final months of 2022/23, particularly those processed manually. We did not identify any significant issues.

Extent of audit adjustments

21. We identified a small number of adjustments to the financial statements, which management has adjusted. The net impact of these is to increase net expenditure by £2,000 and decrease net assets by £2,000.

22. There remains one misstatement, which was not adjusted by management. This related to a recharge to NHS England for services that took place in 2021/22 but was not invoiced by NHS NSS until 2022/23. As a result, 2021/22 income (and 2022/23 opening reserves) are understated by £364,000 and 2022/23 income is overstated by the same amount.

23. The effect of this error is below our performance materiality level as explained in Exhibit 1. We are satisfied that this error does not have a material impact on the financial statements. We are content that this was an isolated issue, which arose due to uncertainty as to whether this specific amount would be recharged.

The unaudited annual report and accounts were received in line with the agreed timetable, however there were delays in responses to requests for audit information

24. The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 May 2023. However, there were significant delays in receiving some supporting information, working papers and responses to audit requests.

25. We recognise, from the audit perspective, the later start to planning, the new auditing standards requirements on IT arrangements impacting on the level of early testing we were able to complete and the introduction of IFRS16. We also note that the finance team is working under significant pressure at year-end, as NHS NSS also prepares the financial statements for three other NHS boards. Finally 2022/23 also marked the first year of a return to normal audit timescales, with the annual report and accounts of these bodies working to a signing date of 30 June 2023.

26. These competing demands contributed to these delays. We will discuss with management how to improve this at an early stage in the 2023/24 audit cycle to improve the efficiency and delivery of the year-end audit.

Recommendation 1

NHS NSS should undertake a review of its year-end audit preparations and finance team capacity to ensure that the working papers and responses to audit requests are provided in a timely manner.

Substantial progress was made on prior year recommendations

27. We are pleased to report that NHS NSS has made substantial progress in implementing all of the audit recommendations in our 2021/22 annual audit report.

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.

Conclusion

NHS NSS operated within its revised Revenue Resource Limit of £719 million supported by effective financial management.

There is a robust control environment in place, including assurance from service auditors, but NHS NSS should address the control weaknesses reported in our interim management letter.

Standards of conduct for prevention and detection of fraud and error are adequate.

NHS NSS operated within its Revenue Resource Limit (RRL) of £719 million

28. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. [Exhibit 4](#) shows that NHS NSS operated within its limits during 2022/23.

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	702.237	701.748	0.489
Non-core revenue resource limit	17.006	17.005	0.001
Total revenue resource limit	719.243	718.753	0.490

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core capital resource limit	10.502	10.423	0.079
Cash requirement	762.939	762.939	0

Source: NHS NSS Annual Report and Accounts 2022/23

Budget processes were appropriate and NHS NSS achieved efficiency savings of £17.8 million

29. NHS NSS produced a three-year forward financial plan, providing a longer-term perspective than the required one-year remobilisation plan required by the Scottish Government.

30. In March 2022 NHS NSS's draft annual operating plan set an overall budget for 2022/23, with overall gross expenditure of £877.6 million and a core revenue resource limit of £515.8 million. This included costs of £261.2 million to cover Covid-19 expenditure in 2022/23 (£388.7 million in 20221/22). It was anticipated these would be fully funded by the Scottish Government.

31. At the time, NHS NSS had forecast significant inflationary pressures, noting that CPI inflation was over 5 per cent in March 2022, although this eventually peaked at 11.1 per cent during 2022/23. This contributed to an overspend on the trading activity of NHS NSS's business directorates, which was managed within the overall budget.

32. Planned service transformation has continued to be delayed due to lack of capacity following the Covid-19 pandemic. As such, planned savings have not been fully achieved yet, which has a longer-term impact on the financial sustainability of NHS NSS.

33. In its original budget for 2022/23, NHS NSS was required to make efficiency savings of £16.8 million or 4.7 per cent of its baseline budget. NHS NSS exceeded this target, achieving a total £17.8 million of savings, which equated to 4.9 per cent of its baseline budget. Of these, £14.7 million (4.1 per cent baseline) were achieved on a recurring basis and the remaining £3 million were achieved on a non-recurring basis (0.8 per cent baseline). Workforce vacancy management was used to achieve savings required within the SNBTS.

NHS NSS has appropriate financial control arrangements in place, although reported weaknesses should be addressed

34. We reviewed of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach. This also involved testing the operating effectiveness of specific controls. We identified some areas where the control environment could be strengthened. We reported

these in our interim management letter, which we presented to the May 2023 Audit and Risk Committee, including:

- the reduction / management of payroll overpayments and introducing additional payroll payment authorisation
- embedding the Blackline system to evidence management reviews of reconciliations and exception reporting.

Recommendation 4

NHS NSS should implement the agreed actions from our management letter to strengthen the overall control environment.

Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap has been identified

35. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating in shared systems. NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance reporting in relation to the NSI eFinancial was unqualified but did highlight issues experienced following the system update in January 2023.

36. NHS NSS procures service audits covering primary care payments (Practitioner and Counter Fraud Services), the national IT services contract and the payroll services provided by NHS NSS. All service auditor assurance reports were unqualified.

37. 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. The NSI report states '*Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, back of financial ledger data and disaster recovery arrangements are outside the scope of this report*'. However it is clear from the service audit report for the national IT services contract that this covers the controls associated with the other service arrangements i.e. primary care payments and payroll.

38. This did not result in an audit risk in 2022/23 but is an area that needs resolved for NHS Scotland. We will work with NHS NSS and other NHS board auditors to address this issue in 2023/24.

Recommendation 5

NHS NSS should engage with NHS Ayrshire & Arran to address the assurance gap over general IT controls for the NSI eFinancials system.

Standards of conduct for prevention and detection of fraud and error are appropriate however, conflict of interest declarations should be expanded to cover all key staff

39. 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.

40. NHS NSS has adequate arrangements in place to prevent and detect fraud or other irregularities. Quarterly fraud reports are issued to the Audit and Risk Committee to notify members of any frauds identified.

41. There are appropriate conflict of interests requirements in place for board members and some executive management members. However, given the nature of NHS NSS's business, and the high-level of procurement activity in which it is involved, it would be good practice for there to be register of interests declarations for senior management and procurement staff beyond the chief executive, director of finance and chief medical officer. This good practice recommendation as agreed with NHS NSS in the 2020/21 audit. However, due to Covid-19 response work, this implementation has been delayed.

Recommendation 6

NHS NSS should ensure that register of interests' declarations are extended to all senior management staff, including those involved in procurement at a senior level.

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.

Conclusion

The approach to budget setting was strengthened in 2023/24 and NHS NSS developed a three-year financial plan with a balanced budget for 2023/24

NHS NSS is continuing to engage with the Scottish Government on the extent of non-recurring funding it receives

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

42. As highlighted in Audit Scotland's [NHS in Scotland 2022](#) report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. These include inflation, recurring pay pressures, ongoing Covid-19 related costs, rising energy costs and a growing capital maintenance backlog.

NHS NSS has strengthened its approach to budget setting and developed a three-year financial plan with a balanced budget

43. NHS NSS changed its approach to budgeting for 2023/24 through the use of a budget summit. Individual directorates were challenged to identify savings of 10 per cent by working collaboratively and considering NHS NSS's overall budget position. This led to NHS NSS prioritising expenditure that would benefit the entire organisation.

44. From 2023/24 onwards, NHS NSS plans to work with each of its internal business directorates to develop activity-based costing. This will enable the directorates to better understand their cost drivers, opportunities and risks, and enable more robust financial decisions to be made.

45. NHS NSS's 2022/23-2025/26 financial plan was approved by the Board in March 2023. The Board's forecast includes additional costs relating to Covid-19 as well as economic uncertainty and inflationary risks in areas such as energy and medicine costs.

46. Based on the current allocations announced by the Scottish Government, NHS NSS plans to deliver a balanced budget for 2023/24. NHS NSS are forecasting a £1.8 million underspend that will be reinvested to deliver efficiencies through NHS NSS's invest-to-save initiatives.

47. There has been a 6.5 per cent uplift in NHS NSS's baseline budget to £378.7 million. NHS NSS anticipates that 2023/24 pay settlements above the 2 per cent uplift as well as Covid-19 expenditure will be fully funded by the Scottish Government. There will be significant pressures on non-pay expenditure, with £14.2 million of cost pressures identified across energy costs, contract inflation and property dilapidations. NHS NSS anticipates £128 million of Covid-19 spend in 2024/25 (£261.2 million in 2022/23).

48. NHS NSS is planning £38.6 million of cash releasing efficiency savings across the 3-year period from 2023/24. NHS NSS has set stretching targets for its income-generating services, such as the Central Legal Office, to be funded from the income they generate rather than from NHS NSS's baseline budget.

NHS NSS is continuing to engage with the Scottish Government on the extent of non-recurring funding received

49. NHS NSS's received an initial 2023/24 core budget allocation of £681.4 million. This consists of £387.1 million of baseline and earmarked recurring expenditure, with a further £294.3 million (43 per cent) of non-recurring expenditure.

50. There is a split of approximately 60 per cent recurring and 40 per cent non-recurring funding across the 3-year financial plan. This continues the trend of NHS NSS receiving significant levels of non-recurring expenditure since the start of the Covid-19 pandemic. Reliance on non-recurring funding limits the ability of NHS NSS to effectively plan and resource future developments. Our prior year recommendation remains relevant: NHS NSS should continue to work with the Scottish Government to agree future recurring funding which reflects its expanding role.

51. The Scottish Government has indicated that it intends to increase NHS NSS's baseline budget where possible by converting ongoing non-recurring funding streams and include the "bundling" of certain allocations. This would give NHS NSS greater certainty when undertaking longer-term planning.

Good practice

52. The [Code of Audit Practice 2021](#) encourages auditors to identify good practice which is worth sharing more widely.

53. We consider that NHS NSS's improved approach to financial planning for 2023/24 onwards, through the use of a budget summit and engagement with directorates, demonstrates good practice. This sits alongside the decision to continue to develop a 3-year forward financial plan to focus on the achievement of strategic objectives.

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.

Conclusion

NHS NSS has a clear vision supported by prioritised corporate and operational planning for finance, workforce and estates.

Governance arrangements are appropriate.

An Environment and Sustainability Strategy has been implemented to help NHS NSS achieve its climate change targets.

NHS NSS has a clear vision and strategy and there are clear links between its financial, workforce and estates planning

54. NHS NSS has a clear vision supported by effective prioritised corporate and operational planning which is linked into the budgetary control process. The board approved a 2022/23 delivery plan which includes a number of actions to support the recovery of planned care. These include providing programme management and service transformation services to radiology support the effective delivery of national health and care programmes, which will reduce the backlog and service pressures in NHS Scotland's radiology.

55. Our audit work has confirmed that NHS NSS has clear links between its financial, workforce and estates planning and is focused on continuous improvement of services. These are key elements of securing best value.

56. NHS NSS did not have remobilisation plan for 2022/23 because it has progressed in its recovery from the Covid-19 pandemic and was no longer working on an emergency footing. As such, NHS NSS will continue to utilise the annual delivery plan to outline its progress and strategic objectives.

Governance arrangements are appropriate

57. NHS NSS's 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.

58. Board and committee meetings continue to be held virtually following the Covid-19 pandemic. Papers and minutes for Boards meetings, including financial and performance information and details decisions made of are available on NHS NSS's website. As part of the commitment to openness and transparency, members of the public may attend Board meetings.

59. We attend NHS NSS's Board and Audit and Risk Committee meetings. We observed that Board members provide a good level of challenge and support to management. There is informed and robust discussion.

An Environment and Sustainability Strategy has been implemented to help NHS NSS achieve its climate change targets

60. 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.

61. NHS NSS is responsible for supporting the delivery of climate sustainability for NHS Scotland. [NHS NSS's Environment and Sustainability Strategy 2022-2040](#) was approved by the Board in July 2022. It is publicly available on the NHS NSS website and sets out its ambition to be a net zero sustainable organisation by 2040, in line with public sector requirements. The strategy contains detailed interim targets to help NHS NSS meet this long-term goal.

62. NHS NSS reports annually on progress against its climate targets. There are regular updates to the board on sustainability. Performance against targets is monitored through the new governance structure which includes a Sustainability and Infrastructure Board; BOSCARD strategic planning tools (Background, Objectives, Scope, Constraints, Assumptions, Risks, and Deliverables); and a Milestone map. NHS NSS also assess their performance using the NHS Scotland Sustainability Assessment Tool (NSAT) and report on their compliance with their climate change duties by completing the Public Sector Report on Climate Change Duties report.

63. NHS NSS is considering the areas where climate change has a material impact. It is working to consolidate its leased properties to reduce the carbon footprint of its estate, which will also lead to recurring financial savings in the longer-term.

64. 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.

Cyber Security arrangements are appropriate, although there remains a significant risk of cyber attack

65. There continues to be a significant risk of cyber-attacks. Recent incidents in other public bodies have demonstrated the significant impact that they can have on both the finances and operation of an organisation.

66. In August 2023, one of the key suppliers to NHS Scotland was subject to a cyber-attack. As a result, the primary care out of hours system used across NHS Scotland and in police custody centres was unavailable for use. NHS NSS was commissioned by the Scottish Government to oversee the reinstatement of this application across NHS Scotland.

67. NHS boards implemented their contingency plans during this time. The basic system functionality became available in September 2022, with full system functionality restored in January 2023. Work is still ongoing to retrieve all lost data. A review of the management of the cyber-attack is underway, and a lessons learned report is being prepared for July 2023.

68. NHS NSS is the lead NHS body for the Atos IT contract. Under this contract, Atos provides central hosting for NHS-wide systems. The majority of NHS NSS's key financial systems are hosted through the Atos contract.

69. Like other public bodies, NHS NSS is required to comply with the SG Cyber Resilience Framework. We noted that NHS NSS was undergoing its audit of compliance with this framework during our interim audit discussions in April 2023. NHS NSS is developing its cyber strategy during 2023 and does not have Cyber Essentials accreditation.

70. Internal Audit undertook a review of IT Infrastructure during 2022/23. This identified risks associated with ageing IT infrastructure including the need to migrate these to the Cloud. Internal Audit recommended that NHS NSS should formalise plans to address this risk and ensure there is a robust risk assessment and realistic funding.

71. NHS NSS is working at an early stage with Abertay University to develop a Cyber Centre of Excellence in 2023. This has a longer-term aim of identifying possibilities for providing wider cyber security services to NHS Scotland and other public bodies.

Recommendation 7

NHS NSS should continue to develop its cyber strategy and ensure that work is ongoing to minimise the risk, and potential impact, of future cyber-attacks.

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

There is an effective performance management framework in place to support the achievement of targets.

A three-year workforce plan 2022-25 has been developed to support a more strategic view in achieving best value.

NHS NSS continues to develop and deliver shared services for NHS Scotland.

NHS NSS has appropriate arrangements for performance monitoring and reporting

72. NHS NSS's integrated performance reports have been considered by the Board regularly throughout 2022/23. Performance has been publicly reported through the board papers and minutes that are published on its website. The original plan included 88 milestones. However, changes were agreed with the Scottish Government to amend several milestones, which increased the number of milestones.

73. There is evidence that NHS NSS is meeting or improving performance against the targets set, as shown in 73. below. NHS NSS report that 88 of the 94 Scottish Government milestones against which it is accountable are either complete or on track for delivery, with the remainder being carried forward into 2023/24. NHS NSS also reports that these figures exclude five milestones that are being carried into 2023/24, and two milestones that were paused.

Exhibit 5

Performance against annual delivery plan 2022/23

Performance against annual delivery plan	Total
Milestones achieved	88
Milestones behind schedule	6

Source: NHS NSS Service Excellence & Annual Delivery Plan M12 FY23, April 2023

A three-year workforce plan 2022-25 has been developed to support a more strategic view in achieving best value

74. NHS NSS implemented a three-year workforce plan in 2022. The aim of this is to undertake a more strategic view of workforce planning and to embed it in service delivery and change. It is supported by a three-year action plan which sets out targets to support recovery, growth and transformation of services.

75. We consider that NHS NSS's workforce plan was robust and provided good evidence that NHS NSS's workforce and financial plans are aligned to help deliver strategic objectives. This demonstrates good practice and will help NHS NSS be well-placed to deliver planned outcomes.

NHS NSS continues to develop and deliver shared services for NHS Scotland

76. As a core part of its remit, NHS NSS provides shared services, including procurement and IT, to other NHS boards. In February 2023, NHS NSS extended the shared payroll services it provides to NHS Lothian, NHS Forth Valley, NHS Fife and Scottish Ambulance Service, which form the South East Payroll. Staff from these bodies TUPE transferred to NHS NSS. This is in addition to the current payroll services NHS NSS provides to Healthcare Improvement Scotland, National Education for Scotland and Public Health Scotland. NHS NSS will seek to identify efficiencies and share best practice across these organisations.

77. In addition, NHS NSS undertook to prepare the annual report and accounts for Healthcare Improvement Scotland in 2022/23. This was in addition to preparing the annual report and accounts for Public Health Scotland and the State Hospital.

78. NHS NSS should play a key role in discussion for public service reform given their already active role, and established assurance arrangements, for delivering shared services for other public sector bodies.

NHS NSS has an appropriate and effective best value framework

79. [*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.

80. NHS NSS undertakes a biennial review of its best value performance in line with the ministerial guidance, which we consider appropriate. This last took place in 2021/22 and will be repeated in 2023/24.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p>1. Annual Report and Accounts Preparation and Audit Delays</p> <p>We identified a number of classification and other issues, which indicates the need for additional management oversight during the preparation of the year-end annual report and accounts.</p> <p>In addition there were significant delays in receiving some supporting information, working papers and responses to audit requests.</p> <p>The finance team is working under significant pressure at the year-end, preparing three other sets of annual report and accounts for the first time since the return to pre-pandemic audit timescales.</p> <p>Risk – There is a risk to the preparation of the annual report and accounts and the delivery of the audit.</p>	<p>NHS NSS should undertake a review of its year-end audit preparations and finance staff capacity to ensure that there is sufficient oversight on preparation and that working papers and responses to audit requests are provided in a timely manner.</p> <p>Exhibit 2 Paragraph 24. - 26.</p>	<p>There were a unique set of circumstances this year including a return to the pre-pandemic timetable, delays to planning and interim testing. New auditing and accounting standards were introduced to add further complexity for both the new audit team and a relatively inexperienced financial accounting team. We will review the timetable, roles and responsibilities for both NSS and Audit Scotland as part of the lessons learned session.</p> <p>Associate Director of Finance (Finance Operations)</p> <p>August 2023</p>

Issue / risk	Recommendation	Agreed management action / timing
<p>2. Provisions</p> <p>Significant additional audit work was required to obtain sufficient evidence to justify management's estimation of the provisions.</p> <p>Risk – Given the inherent subjectivity in calculating provisions, there is a risk that they are misstated if there is insufficient evidence to justify the estimate.</p>	<p>A formalised annual review of backlog maintenance across the NHS NSS estate would highlight whether provisions remain reasonable.</p> <p>Management should document their judgement for all provisions and ensure there is sufficient evidence to support these estimates at the outset of the audit.</p> <p>Exhibit 2</p>	<p>Regular reviews of the maintenance required across the NSS estate are carried out. To improve the audit process for next year we will formalise and document these quarterly reviews and providing supporting evidence and explanation on the basis of any judgements made.</p> <p>Deputy Director of Finance and Interim Associate Director of Facilities</p> <p>September 2023</p>
<p>3. Remuneration Report</p> <p>Audit testing identified a number of amendments to the remuneration report due to inaccuracies when considering the underlying documentation and inconsistencies with the FReM requirements.</p> <p>Risk – There is a risk that the remuneration report is misstated in the annual report and accounts.</p>	<p>NHS NSS should undertake a review of its working papers when preparing the Remuneration Report and ensure that required disclosures are accurate and in line with the FReM and associated guidance.</p> <p>Exhibit 2</p>	<p>We will review roles and responsibilities for the preparation and review of the remuneration report as part of the lessons learned session in August 2023.</p> <p>Associate Director of Finance (Finance Operations)</p> <p>August 2023</p>
<p>4. Control environment</p> <p>In our management letter we identified a number of opportunities for NHS NSS to strengthen the control environment. Key areas include:</p> <ul style="list-style-type: none"> improving management and reporting of payroll overpayments 	<p>NHS NSS should implement the agreed actions from our management letter to strengthen the overall controls environment.</p> <p>Paragraph 34.</p>	<p>To improve the transparency and management of payroll overpayments we will:</p> <ul style="list-style-type: none"> introduce quarterly reporting to EMT from July 2023 undertake an Internal Audit of salary overpayments during the summer of 2023implement any recommendations by March 2024. <p>We will introduce any improvements required to the controls framework in Payroll</p>

Issue / risk	Recommendation	Agreed management action / timing
<ul style="list-style-type: none"> embedding blackline to evidence management reviews. <p>Risk – Weaknesses in the control environment can increase the likelihood of fraud or error in the system.</p>		<p>as part of the Type I ISAE Service Audit work planned for 2023/24.</p> <p>Associate Director of Finance (Payroll Services)</p> <p>We will extend the use of Blackline to document and evidence management reviews during 2023/24.</p> <p>Associate Director of Finance (Finance Operations)</p> <p>March 2024</p>
<p>5. Service assurance gap</p> <p>The IT general controls, system backup and disaster recovery for the NSI eFinancials system are not currently covered by any of the service audit arrangements.</p> <p>Risk – Any issues with back up and disaster recovery would have a significant impact on the financial reporting for all health boards.</p>	<p>NHS NSS should engage with NHS Ayrshire & Arran to address the assurance gap over general IT controls for the NSI eFinancials system.</p> <p>Paragraph 37. - 38.</p>	<p>We will engage with the Director of Finance at NHS Ayrshire and Arran to understand how NHS NSS can support them to address the assurance gap identified within the NSI eFinancials Service Audit arrangements.</p> <p>Director of Finance Corporate Governance & Legal Services</p> <p>July 2023</p>
<p>6. Register of Interests</p> <p>Given the nature of NHS NSS's business, and the high-level of procurement activity in which it is involved, it would be good practice for there to be register of interests' declarations for senior management and procurement staff beyond the chief executive, director of finance and chief medical officer.</p>	<p>NHS NSS should ensure that register of interests' declarations are extended to all senior management staff, including those involved in procurement at a senior level.</p> <p>Paragraph 41.</p>	<p>The register of interest portal on Service Now will be rolled out to all EMT, Directorate SMTs and Senior Procurement officials.</p> <p>Associate Director, Corporate Governance and Board Services</p> <p>September 2023</p>

Issue / risk	Recommendation	Agreed management action / timing
<p>7. Cyber-attack</p> <p>NHS NSS is developing its cyber strategy and working to improve its IT infrastructure.</p> <p>Risk - Cyber-attack continues to be a threat to NHS NSS and other public bodies.</p>	<p>NHS NSS should continue to develop its cyber strategy and ensure that work is ongoing to minimise the risk, and potential impact, of future cyber-attacks.</p> <p>Paragraph 66. - 71.</p>	<p>NSS Digital & Security (DaS) plays an important role in minimising the risk and potential impact of future cyber-attacks for NSS and NHSS and will:</p> <ul style="list-style-type: none"> • Participate annually in the C audit • Adopt Cyber Essentials framework to ensure alignment with best practice by Mar 2024 • Develop annual Cyber Strategy linked to our ADP by Mar 2024 • Support the growth of Security Operations Centre and Cyber Centre of Excellence in line with strategy; and • Restructure the Information Security & Governance (ISG) team to ensure that it provides best in class services to both NSS and NHSS by July 2024 <p>Director of NSS Digital and Security</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Removal of passthrough transactions and balances</p>	<p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity are excluded from the NHS NSS financial statements.</p>	<p>Complete</p> <p>Passthrough transactions are now transacted through specific balance sheet codes. This avoided the need for manual calculations at the end of the financial year.</p>

Issue/risk	Recommendation	Agreed management action/timing
b/f 2. Classification errors	Processes should be strengthened to improve the accuracy of ledger coding.	<p>Complete</p> <p>NHS NSS undertook a lessons-learned exercise following the 2021/22 audit.</p> <p>We did not identify any significant classification issues in the 2022/23 audit.</p>
b/f 3. Medium Term Financial Plan Projected Deficit	NHS NSS must continue to support SBUs to minimise projected deficits.	<p>Complete</p> <p>NHS NSS has approved a balanced financial plan for 2023/24-2025/26.</p>
b/f 4. Openness and Transparency	NHS NSS should leverage the opportunities that a virtual presence provides and use that to improve the availability and accessibility of information to the public.	<p>Complete</p> <p>NHS NSS publishes board minutes and papers on its websites.</p> <p>Members of the public are able to attend NHS NSS's board meetings.</p>
b/f 5. Procurement systems	NHS NSS should ensure that relevant procurement systems are updated to reflect contract end dates.	<p>Complete</p> <p>NHS NSS has introduced a new process to ensure that additions and deletions of suppliers are managed on a weekly process through the SKU deletion tracker.</p>

NHS National Services Scotland

2022/23 Annual Audit Report

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