

NHS National Services Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

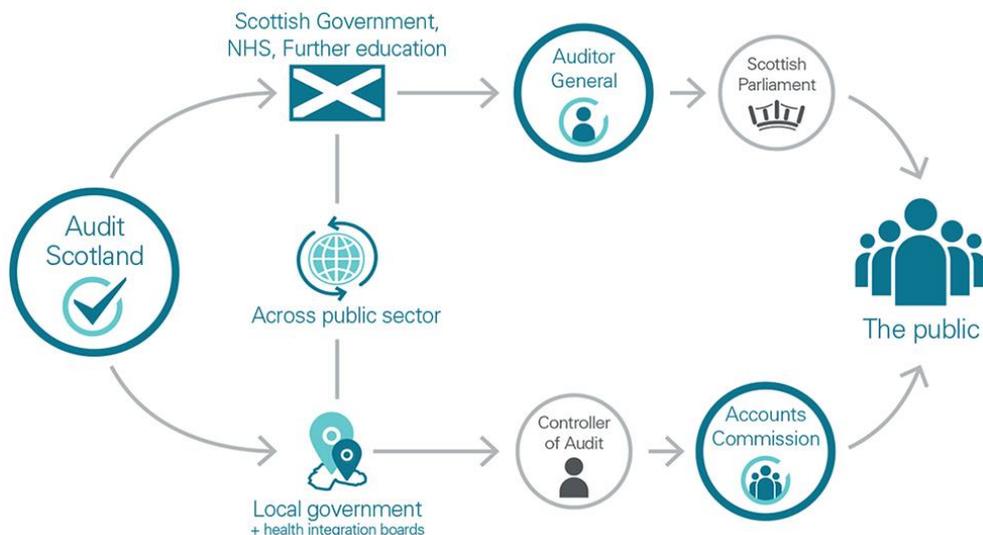
Prepared for the Board of NHS National Services Scotland and the Auditor General for Scotland

29 June 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and accounts	7
Part 2 Financial management	12
Part 3 Financial sustainability	16
Part 4 Governance and transparency	20
Part 5 Value for money	25
Appendix 1 Action plan 2017/18	30
Appendix 2 Significant audit risks identified during planning	35
Appendix 3a Summary of corrected misstatements	38
Appendix 3b Summary of uncorrected misstatements	39
Appendix 4 Summary of national performance reports 2017/18	40

Key messages

2017/18 annual report and accounts

- 1** In our opinion: NHS National Services Scotland's financial statements give a true and fair view and were properly prepared; expenditure and income were in accordance with applicable enactments and guidance; and the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial management

- 2** NHS National Services Scotland has effective arrangements in place for managing its finances and the use of resources. NHS National Services Scotland met all its financial targets for 2017/18 and achieved an underspend of £0.834 million against its revenue resource limit.
- 3** We carried out additional work on funding allocation adjustments in response to an emerging risk. We concluded that the 2017/18 allocation was correctly accounted for in the financial statements. We found that allocation adjustments made during 2017/18 were valid, supported by appropriate evidence and agreed with the Scottish Government.

Financial sustainability

- 4** We concluded that NHS National Services Scotland has adequate financial management arrangements in place. The board achieved financial balance in 2017/18 and is forecasting this for 2018/19. Achievement of efficiency savings will be increasingly important and increasingly challenging in future years.

Governance and transparency

- 5** NHS National Services Scotland has governance arrangements in place that support scrutiny of decisions made by the board. Improvements to governance of funds managed on behalf of NHS Scotland are being made in response to weaknesses in the oversight of eHealth allocations that emerged during the year.
- 6** The board has taken steps to improve its transparency. This area will be kept under review, given public expectations of public bodies.

Value for money

- 7** NHS National Services Scotland has an effective performance management framework in place which supports continuous improvement. The Board achieved or exceeded expectations in 93% of its key performance indicators for 2017/18.
- 8** There is scope to develop the performance report in the annual report and accounts to be clearer on how well NHS NSS is delivering on its overall objectives.

Introduction

1. This report summarises the findings from our 2017/18 audit of the Common Services Agency for the Scottish Health Service, commonly known as NHS National Services Scotland (NHS NSS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 1 December 2017 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the board's annual report and accounts
 - consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - a review of the board's main financial systems
 - an audit of the board's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of the four audit dimensions.
4. 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 Scottish Ministers. The board's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

5. The board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and [the Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified 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 from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes agreed actions from last year and progress against these.

10. 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 2017/18 audit fee of £181,530, 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

11. Our aim is to add value to NHS NSS by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

NHS National Services Scotland's financial statements give a true and fair view and were properly prepared.

Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 29 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Risks of material misstatement

15. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. Also included within the appendix are wider dimension risks.

Materiality

16. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

17. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. With regards to the annual report and accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

18. On receipt of the annual report and accounts we reviewed our planning materiality calculations and these are summarised in [Exhibit 2](#). The revised materiality levels were not sufficient to require a change in our audit approach.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£7.0 million
Performance materiality	£4.6 million
Reporting threshold	£80 thousand

Source: NHS NSS unaudited annual report and accounts 2017/18

How we evaluate misstatements

19. There were no material adjustments to the unaudited financial statements arising from our audit. Adjustments to the unaudited financial statements arising from our audit are set out in Appendix 3a – summary of corrected misstatements. There were a number of individual misstatements identified which exceeded our reporting threshold that were not adjusted. These are included in Appendix 3b – summary of uncorrected misstatements.

20. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Significant findings from the audit in accordance with ISA 260

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

22. The findings include our views about significant qualitative aspects of the board's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Accrued income miscoded as prepayments</p> <p>Accrued income of £416,000 has been posted in the ledger as Prepayments due after more than 1 year. As the final instalment of this accrued income is due to be received on or before 1 March 2019, it should sit within Accrued income due within 1 year.</p>	<p>Management agreed that the board's prepayments had been overstated and accrued income understated by £416,000 and corrected for this in the final version of the accounts. This is reflected in the adjusted misstatements schedule in Appendix 3a.</p>
<p>2. Prepayments - creditor balance</p> <p>Prepayments due within 1 year included a negative balance of £248,000 within the National Licenses prepayment. As this amount had not been prepaid at year end, nor had an invoice been received from the supplier until mid-April 2018, the amount should be an accrual and sit within the creditors balance in the financial statements.</p>	<p>Management agreed that the board's prepayments and creditors had been understated by £248,000 and corrected for this in the final version of the accounts. This is reflected in the adjusted misstatements schedule in Appendix 3a.</p>
<p>3. Pharmacy rebates</p> <p>The 2017/18 accounts have been restated to remove offsetting income and expenditure relating to rebates on pharmacy expenditure due to other health boards (£40 million 2017/18 and £24 million 2016/17). The pharmacy expenditure is not accounted for by NHS NSS; it is accounted for as expenditure in territorial boards' accounts. Previously the rebates from manufacturers and pharmacy companies was included in NHS NSS's accounts (as income received and then paid across to the other boards).</p> <p>This change has been agreed with the Scottish Government and means that the rebates are now treated in the same way as the pharmacy expenditure and excluded from NHS NSS income and expenditure. However, the payables and receivables element of the rebates (£2.735 million 2017/18 and £4.149 million 2016/17) were not initially removed from the Statement of Financial Position.</p>	<p>Management agreed that the board's payables and receivables balances had been overstated by £2.735 million and corrected for this in the final version of the accounts. This is reflected in the adjusted misstatements schedule in Appendix 3a.</p>
<p>4. Capitalisation of recoverable VAT</p> <p>£83,364 recoverable VAT on an invoice for works on the Jack Copland Centre has been incorrectly capitalised. Only non-recoverable VAT can be capitalised.</p>	<p>Management decided that this point raised was not material and therefore this is recorded as an unadjusted misstatement in Appendix 3b.</p> <p>Management agreed that staff awareness of the requirements for capitalisation will be refreshed.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>5. Capitalisation of goods not received or paid for</p> <p>Customisation work of £172,335 to add refrigeration equipment to vehicles for SNBTS has been incorrectly capitalised. The work had not been paid for by the year end and the vehicles were in transit and so not received by 31 March. The vehicles were incorrectly recorded as received in 2017/18 by NHS NSS.</p>	<p>Management decided that this point raised was not material and therefore this is recorded as an unadjusted misstatement in Appendix 3b.</p> <p>Management agreed that staff awareness of the requirements for capitalisation and receipting of goods will be refreshed.</p>

Finding	Resolution
<p>6. VAT receivable</p> <p>VAT receivable in the accounts is £538,000 more than that shown in the Board's VAT return. NHS NSS intends to reclaim VAT paid in error on a number of invoices, on the advice of the Board's tax advisor. The Board has not yet written to HMRC to seek agreement on this matter and it is not known whether HMRC will agree to the Board's request. This is therefore a contingent asset (contingent upon HMRC's agreement) and should not be recognised as receivable income in the 2017/18 financial statements.</p>	<p> Recommendation 1 (refer appendix 1, action plan)</p> <p>Management decided that this point raised was not material and therefore this is recorded as an unadjusted misstatement in Appendix 3b.</p>
<p>Source: NHS NSS 2017/18 audit matters arising</p>	

Submission of annual report and accounts for audit

23. We received the unaudited annual report and accounts on 1 May 2018, in line with our agreed audit timetable.

24. The working papers provided were of a generally good standard and finance staff provided good support to the audit team. There was a high level of disclosure errors identified in the draft financial statements; we consider that this is indicative of the accounts preparation workload pressure faced by certain key individuals. Some delays were experienced in obtaining supporting documentation and explanations to audit queries. We note however that using the working paper checklist issued to finance to ensure a full list of the required working papers and supporting documentation at the start of the audit would have facilitated a more efficient final accounts process.



Recommendation 2

The Board should ensure that there are adequate resources available to support the preparation of the accounts.

Good practice in financial reporting

25. The NHS NSS annual report and accounts have been amended to include some areas of good practice as set out in Audit Scotland's good practice note titled 'Improving the quality of NHS annual reports and accounts – reporting financial performance' issued in November 2017. The memorandum for in year outturn now includes the cumulative underspend (surplus) to provide a clear link back to the financial performance disclosure.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

27. Five agreed actions were raised in 2016/17, which have all been implemented.

28. Overall the board has made good progress in implementing these actions. In particular, actions associated with the PACS re-provisioning programme have been

completed and the programme has progressed to the delivery phase with key milestones currently being delivered ahead of schedule. Plans are also in place to implement fully mirrored Primary and Secondary data centres by January 2019 to further enhance system resilience in accordance with best practice. Consequently, risks within this area have been significantly reduced but progress will continue to be monitored.

Part 2

Financial management



Main judgements

NHS National Services Scotland has effective overall financial management arrangements in place.

Improvements are being made to internal control over funds managed on behalf of NHS Scotland. In other areas our interim testing of the key controls over financial systems confirmed that they operated effectively in 2017/18.

Financial performance in 2017/18

29. NHS NSS, as required by statute, to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2017/18.

Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	417.434	416.601	0.833
Non-core revenue resource limit	12.553	12.552	0.001
Total revenue resource limit	429.987	429.153	0.834
Core capital resource limit	3.323	3.312	0.011
Non-core capital resource limit	0	0	0
Total capital resource limit	3.323	3.312	0.011
Cash requirement	413.654	413.653	0.001

Source: NHS NSS annual report and accounts 2017/18

Underspend against Revenue Resource Limit (RRL)

30. NHS NSS achieved an underspend of £0.834 million (0.2%) against its 2017/18 revenue resource limit of £429.987 million. This outturn is consistent with the 2017/18 NSS budget which forecast a breakeven position. This underspend was principally due to the delays with the opening of the Jack Copland Centre, the new Scottish National Blood Transfusion Service (SNBTS) Centre with displacement costs of £0.3 million and decommissioning costs of £0.5 million slipping into 2018/19. The Scottish Government has confirmed that this sum will be returned to NHS NSS during 2018/19.

Capital Resource Limit (CRL)

31. NHS NSS received a total capital allocation of £3.323 million. An underspend of £0.011 million was recorded, which was in line with the budgeted break-even position. A number of capital programmes which were phased towards the year end have been delayed. Funding totalling £1.3 million which was not used in 2017/18 due to slippage will be reinstated in 2018/19 for the Jack Copland Centre, the Radiology Programme and the development of a green space within the Gyle Courtyard.

Efficiency savings

32. NHS NSS was required to make efficiency savings of 5% in 2017/18. This is equivalent to a savings target of £16.549 million. The board did well to achieve a reported saving of £1.689 million over its target, with total savings of £18.239 million.

33. All the required savings were achieved on a recurring basis with some of the additional savings achieved on a non-recurring basis (mostly on the IT side). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Funding allocations

34. NHS bodies receive allocation letters throughout the year with funding often earmarked for specific purposes. An issue was identified by the Scottish Government during the year regarding adjustments to eHealth allocations for NHS NSS and NHS Tayside. Over several years, NHS NSS underspends on eHealth projects were returned to the Scottish Government and removed from NHS NSS's allocation, but with the recommendation that the monies were added to NHS Tayside's allocation without evidence that it would be used for eHealth purposes.

35. The Scottish Government commissioned Grant Thornton to undertake an investigation into these eHealth funding allocation adjustments. The NHS NSS Chief Executive commissioned internal audit to carry out a formal review of eHealth financial governance going back to 2012; this internal audit review also informed the Grant Thornton investigation. Internal audit identified weaknesses and made several recommendations for improvement. An action plan in response to internal audit's recommendations and the Grant Thornton report was presented to the Audit and Risk Committee in March 2018 and approved by the Board in April 2018.

36. Improvement actions being progressed include: improving Board level scrutiny; clarifying roles and responsibilities; improvements to Standing Financial Instructions; rotation of senior finance staff; establishing a new Financial Controller role; refresher training and support for finance staff; and commissioning additional 2018/19 internal audit reviews.

37. In response to the emerging risk, we carried out additional audit work in this area during 2017/18. This work involved:

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

- Reviewing the final 2017/18 allocations letter from the Scottish Government and ensuring it agreed to the funding in NHS NSS financial statements
- Reviewing the monthly allocation letters to identify in-year allocation adjustments and clarify what the adjustments were for
- Ensuring underspends were properly communicated to the SG where NHS NSS had requested an allocation adjustment
- Reviewing action taken to date by NHS NSS to ensure appropriate visibility and governance of funding and improvement of internal controls

38. NHS NSS 2017/18 funding allocations were adjusted by £28.643 million during the year as shown in Exhibit 5. This reduced the board's overall allocation, returning these amounts (except the depreciation adjustment) to the Scottish Government as part of its overall budget management for NHS Scotland.

Exhibit 5

Allocations adjustments 2017/18

Type of adjustment	Total amount £m	% of total adjustments
Depreciation adjustments	9.026	32
Underspend on projects	7.526	26
Savings achieved and returned to Scottish Government	5.782	20
Corrections	5.534	19
Adjustment for work carried out by other boards	0.775	3
Total	28.643	100

Source: NHS NSS allocations tracker 2017/18

39. Additional allocations are provided in respect of specific projects and funds are returned if not used for the purposes originally allocated during the year. The underspends on projects includes £6.5 million of eHealth funding returned to the Scottish Government. Adjustment for depreciation is due to standard transfer of funding from core to non-core for depreciation charges in the year. Corrections are in respect of allocations initially made to NSS in error.

40. We confirmed that the 2017/18 funding allocation was correctly accounted for in the 2017/18 financial statements. We confirmed that the allocation adjustments in 2017/18 were all agreed with the Scottish Government and were supported by valid reasons and evidence for the adjustments.

41. The board's action plan in relation to eHealth funds sets out important improvements to its scrutiny of funds managed on behalf of NHS Scotland, including improved eHealth financial reporting to and scrutiny by the Executive Management Team and Performance and Finance Committee. It is critical that the board strengthens its arrangements in this area to address identified weaknesses. The Performance and Finance Committee considered the first of these enhanced financial reports at its 30 May 2018 meeting. We will review the effectiveness of

this reporting and other improvement actions being implemented in our 2018/19 audit.



Recommendation 3

The board must ensure that the planned improvements to its internal controls over funds managed on behalf of NHS Scotland are implemented.

Budgetary processes

42. We reviewed NHS NSS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, committee papers and attendance at committees we observed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

43. As reported above, weaknesses were identified during 2017/18 in financial reporting and budgetary control over funds managed by NHS NSS on behalf of NHS Scotland, including eHealth funds. We will review the effectiveness of the Board's planned improvements as they are implemented in our 2018/19 audit.

Other systems of internal control

44. As part of our audit we identify and inspect the key internal controls in the accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS NSS has sound systems of recording and processing transactions which provide the basis for the preparation of the financial statements.

45. Our findings were included in a management audit report presented to the Audit and Risk Committee on 23 May 2018. We concluded that the controls put in place by management are appropriate and operating effectively. No significant internal control weaknesses were identified during the interim audit work which could affect NHS NSS's ability to record, process, summarise and report financial and other relevant data which would result in a material misstatement in the financial statements.

Part 3

Financial sustainability



Main judgements

NHS National Services Scotland has appropriate and effective financial planning arrangements in place based on the Operational Delivery Plan.

NHS National Services Scotland achieved its savings target on a recurring basis in 2017/18 but achieving its savings targets and maintaining financial balance in the medium term will be increasingly difficult.

Financial planning

46. NHS NSS's Operational Delivery Plan for 2018 to 2023 sets out how the board's financial, workforce and services plans implement its strategic priorities. Guidance received from the Scottish Government has changed the focus from a strategic LDP to an annual Operational Delivery Plan (ODP) which shows relevant performance measures. The ODP was approved by the Board on 6 April 2018 for submission to the Scottish Government in line with the required timescales. The five-year financial plan is a key component of the ODP and sets out how the board plans to achieve financial balance over the period.

47. The five-year financial plan details expected savings in each of its five years, with the 5% CRES savings included in each SBU baseline. The plan also recognises the significant pressures facing the board, whilst a breakeven position is expected for 2018/19, years 2–5 are expected to present a real challenge to achieving breakeven positions.

Scottish budget process

48. Proposals have been made to amend the Scottish Budget process likely to be introduced for the 2019/20 budget, reflecting increases in devolved tax raising and spending powers. As the Scottish Government provides NHS NSS with the majority of its annual funding it is dependent on the outcome of this process. There is some scope to increase income from other sources, but that income is derived from public sector bodies who are dependent on Scottish Government funding. As noted above, NHS NSS will find it challenging to achieve break even in years 2-5 of its current financial plan.

Medium to long term efficiency savings

49. NHS NSS is required to achieve efficiency savings of £16.704 million for 2018/19, which includes a 5% reduction in the baseline RRL. It must also deliver an additional £5.5 million savings as its share of £15 million savings required from national boards.

50. This is a significant challenge for the board given that £1.3 million of 2018/19 savings have yet to be identified. All savings are to be met on a recurrent basis:

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

SBU baseline funding is assumed to reduce by 5% p.a. to deliver efficiency savings in line with the CRES target.

51. In each subsequent year of the plan NHS NSS is required to achieve efficiency savings of 5% as illustrated in Exhibit 6. Most of the savings required in 2019/20 and beyond have been identified. However, the gap between planned and unidentified savings significantly widens from 2019/20 onwards. In recent years the board has had a good track record in achieving its savings targets. However, in our opinion, achieving saving targets across the 5 year period will be challenging for the board as many of the 'easier' savings have already been made.



Recommendation 4

The board should ensure that savings plans are developed to close the gap between target and identified savings.

Exhibit 6

Savings forecast 2018/19 to 2022/23

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Target	£16.705m	£16.705m	£16.705m	£16.705m	£16.705m
Planned	£15.376m	£12.688m	£12.763	£11.858	£11.674m
Gap	£1.329m	£4.017m	£3.942m	£4.847m	£5.031m
Gap as % of total savings	8%	24%	24%	29%	30%

Source: NHS NSS Finance and Workforce Plan

Workforce planning

52. In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

53. Maintaining business as usual whilst adapting to future strategic developments will be a key challenge for NHS NSS. For example, the range of specialist services which NHS NSS provides has resulted in a workforce that can be characterised by high levels of specialist skills with unique knowledge and experience sitting at an individual level or clustered within very small pockets of the workforce. This has implications in terms of service resilience and may also impact on business units during periods of peak demand or growth.

54. Within such a fluid environment, the risk of staff displacement may increase and redeployment to often highly specialist roles can be challenging. Consequently, the successful implementation of a Learning and Development Plan will be critical to the success of future organisational change. This programme of work includes a focus on effective talent management and succession planning, as well as line management training to improve performance management and staff

development. SBUs will also be supported to identify appropriate actions that tackle inequalities and develop a more balanced workforce.

55. NHS NSS is not reliant on temporary staff to deliver its services. Expenditure on temporary staff has increased over the last five years with spending on temporary staff increasing from £3.878 million (3% of staff costs) in 2013/14 to £4.231 million (2.8% of staff costs) in 2017/18. The use of agency staff to increase capacity for seasonal fluctuations and time limited projects is more common within the National Distribution Centre, as well as IT and Programme Management Services. However, agency staff costs are closely managed and as per the most recent work force plan will reduce over the next five years.

56. NHS NSS like most NHS boards is working to improve its sickness absence rate with measures to maximise attendance at work. Sickness absence rates are monitored and reported monthly to the Executive Management Team (EMT) and Senior Management teams across the organisation. HR are taking a proactive approach to attendance management, with an emphasis on incremental improvement and supporting cultural change amongst staff. Formal line management training now includes sickness absence management. As at March 2018 the sickness absence rate was 3.9% compared to 4.3% for the comparable period last year. The national performance standard is 4% for sickness absence.

Ending of public sector pay cap

57. As per the 2018 ODP, the Scottish Government (SG) Pay Policy has been applied which equates to an average increase of 2.3% (c£3m) across NHS NSS. It is assumed that funding for Agenda for Change staff (approximately 97% of NHS NSS staff) for pay increases greater than 1% will be provided by the SG in line with recent discussions/guidance, this equates to £1.8m for NHS NSS.

EU withdrawal

58. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - Highly specialised talent remains internationally mobile and any barriers to immigration may impede the recruitment of the best scientists, clinicians and technical experts.
- Funding – There remain uncertainties around the extent to which current EU funding for research, development and innovation may be replaced. Elements of NHS NSS benefit from this and longer-term planning to mitigate potential shortfalls will be required.
- Regulation – The impact of changes in regulations differ across SBUs. All SBUs continue to monitor the situation regarding Brexit negotiations and associated impacts to markets and regulation.

59. The NHS NSS Executive Management Team (EMT) have considered potential Brexit impacts with the paper, Implications of Brexit on National Services Scotland considered in the January 2018 EMT meeting. Like most organisations, NHS NSS are awaiting the progress of Brexit negotiations before developing any firm plans.

Part 4

Governance and transparency



Main judgements

NHS National Services Scotland generally has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Improvements are being made to address weakness in the oversight of funds managed on behalf of NHS Scotland.

Governance arrangements

60. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS NSS and for monitoring the adequacy of these arrangements.

61. Our review of the Board's governance and accountability arrangements included reviewing a range of governance documents, minutes and agenda papers. We attended Audit and Risk Committee meetings and Board meetings during the year.

62. There are appropriate governance arrangements in place which provide a framework for effective decision making. These include:

- Standing orders including standing financial instructions (SFIs) and committee remits are updated regularly. The SFIs were revised in 2018 to ensure that they were more easily understood and accessible to all staff. This will be reinforced with training for budget holders later in the year;
- there is a good level of scrutiny and challenge by members. Board members are kept up to date on current issues (for example the eHealth allocations issue) which allows them to exercise effective scrutiny;
- policy decisions, service performance, and programme management are subject to a good level of scrutiny and review. Financial reporting on funds managed on behalf of NHS Scotland is being improved - the Performance and Finance Committee considered a report on this in May 2018;
- the quality of papers provided to members is satisfactory, with a good balance between narrative summary and further detail of content.

63. We concluded that the Board has a strong focus on good governance, and the responsibility that everyone in the organisation has for ensuring this. The board has identified the need to improve its governance of funds managed on behalf of NHS Scotland and is making a number of improvements in response to weaknesses identified in its oversight of eHealth funding (see paragraphs 34-41). We will review the effectiveness of these in practice as part of our 2018/19 audit.

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

Transparency

64. Transparency means that the public, have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

65. Board meetings are open to the public and papers easily accessible through the NHS NSS website. We reported in 2016/17 that it was not readily apparent that committee papers could be requested by members of the public: the website has now been updated with clear guidance for individuals looking to request committee papers. Each of the 6 committees also publish annual reports on the NHS NSS website.

66. NHS NSS has a number of channels where complaints and feedback can be given about its services, including an online form, telephone, email and letter. Complaints are sent directly to the SBUs where cases are delegated to appropriate staff. Quarterly feedback reports analysing complaints across services and actions taken to reduce reoccurrence in future are considered by the Audit and Risk Committee.

67. Overall, we concluded that the board is improving transparency and conducts its business in an open and transparent manner in line with other health boards. NHS NSS should regularly review its arrangements in this area to ensure it is responding appropriately to public expectations.

Internal audit

68. The board's internal audit function is carried out by KPMG LLP. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

69. A formal external quality assessment of internal audit's compliance with the PSIAS is required at least once every five years. KPMG LLP are yet to have an external quality assessment carried out since this requirement was introduced in 2013.



Recommendation 5

The board should request that its internal auditor has an external review of compliance with the Public Sector Internal Audit Standards, and consider including this requirement explicitly in the future procurement of internal audit services.

70. We reviewed the board's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors), to determine the extent we could rely on the work of internal audit. We planned to place reliance on aspects of internal audit work in the following areas for our financial statements responsibilities: Financial Controls – Decentralised versus centralised accounting controls; Property Transaction monitoring; Financial sustainability (Revenue generation); 2016/17 Treasury and accounts receivables and 2015/16 Payroll financial control work.

71. We placed reliance on the prior year financial controls work to give us assurance for our financial statements responsibilities. The property transaction monitoring work did not happen in 2017/18 due to the completion date of the relevant transaction. We took account of the other internal audit areas to inform our

work but did not place formal reliance as it did not reduce the extent of testing we required to undertake for our financial statements assurance.

Governance statement

72. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

73. The governance statement sets out NHS NSS's risk assessment and risk management arrangements. The statement also summarises internal audit findings and key reports issued in the year, with the overall conclusion in internal audit's annual report noted as being 'generally satisfactory with some improvements required'.

74. Specific governance weaknesses were disclosed in the governance statement covering the management of e-health funds along with the actions taken to date to address the weaknesses. As reported in paragraphs 34-40, we have carried out additional work in this area.

75. Overall, we concluded that the information in the governance statement is consistent with information gathered during our audit work.

National Fraud Initiative

76. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

77. NFI activity is summarised in [Exhibit 7](#). We reported on progress with the NFI exercise in our progress update to the March Audit and Risk committee and concluded that good progress had been made with the 2016/17 NFI exercise, particularly in terms of checking all the recommended matches.

Exhibit 7

NFI activity



9,551

Matches



652

Recommended
for investigation



654

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

78. No frauds or errors were identified by the Board as part of the exercise and NFI activity is routinely reported to the Audit and Risk Committee by the NHS NSS fraud officer as part of the general fraud update. NHS NSS's engagement with the exercise was concluded as satisfactory overall.

Standards of conduct for prevention and detection of fraud and error

The board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Cyber security

79. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

80. NHS NSS follows the NHS Scotland Information Security policy which is aligned to the ISO 27001 Information Security Management System Standard. Designated responsible officers are in place and cyber security considerations are built into existing policies such as information security, data protection and acceptable IT use. Risks are assessed using the NHS NSS Integrated Risk Management Approach and are reviewed by the information governance group with a clear escalation route to the Information Governance Committee. Each risk is maintained by an individual risk owner and work is also ongoing to develop a dashboard which will provide key metrics.

81. Assessing cyber threats remains an area of ongoing activity. As part of a cyber resilience plan, system specific analysis has been undertaken with a commitment to reflective practice using tools such as Wannacry incident analysis. Weekly data recovery tests are also completed and there has been a strong focus on mitigating supply chain risks by reviewing data sharing agreements and contractual security requirements.

82. Given a dynamic and rapidly evolving technological landscape, NHS NSS is also horizon scanning and considering areas where additional cyber security skills may be beneficial such as knowledge of the cloud, penetration testing and mobile applications.

83. We concluded that NHS NSS is actively strengthening its cyber resilience arrangements. The board completed its Cyber Essentials pre-assessment by the required date (31 March). NHS NSS is also working towards Cyber Essentials accreditation. This includes ongoing engagement with the Scottish Government to deploy an updated version of Microsoft Office at a national level which is a key enabler to achieving full Cyber Essentials accreditation.

General Data Protection Regulation

84. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states have to implement the Regulation in the same way. GDPR has introduced new and significantly changed data protection concepts.

85. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

86. NHS NSS's Information Governance Committee has oversight of GDPR activities and are updated regularly on progress in preparation for GDPR. The

Board completed a series of GDPR readiness checklists which were submitted to the Scottish Government's Digital Health and Care Division. These are a tool to help NHS organisations in Scotland prepare for GDPR. The readiness checklist as at 21 May 2018 identified concerns around system limitations on the Board's ability to respond to the GDPR right to restrict processing.

87. Areas in which work is ongoing to achieve full compliance include; governance, documentation and contractual work by IT SBU in relation to the NHS NSS-managed national services and clearly delineating procedures and documentation to meet the demands of the new GDPR 'accountability principle'.



Recommendation 6

NHS NSS should implement the actions required to ensure compliance with GDPR.

2020 Vision

88. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision.

89. The Scottish Government requested National Boards to plan collaboratively: the National Boards delivery plan sets out the collaborative potential to support health and social delivery with high quality sustainable services. It also sets out opportunities for National Boards to support new models of delivery and maximise capacity to support service transformation. As part of the plan, National Boards are to identify £15 million of savings to be released from increased collaboration.

90. NHS NSS continues to work alongside stakeholders to look at ways to harness the collective expertise of the National Boards to support the Health and Social Care Delivery Plan as well as Scottish Government policies including National Clinical Strategy, Realistic Medicine and the Everyone Matters: 2020 Workforce Vision.

91. This work continues and while good progress is being made in areas such as the preparation for the new public health body, there is still more to be done to ensure that the savings from National Boards are from collaborative working.

Part 5

Value for money



Main judgements

NHS National Services Scotland has an effective performance management framework in place that supports the board in its drive to achieve value for money and continually improve how it delivers services.

There is scope to improve performance reporting in the annual report and accounts to clarify how well NHS National Services Scotland is delivering on its overall objectives.

NHS National Services Scotland has areas of good practice in its ICT contract management but should ensure that its organisational approach is documented and accessible.

Performance management

92. The Scottish Government monitors how NHS NSS performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's ODP. Examples include 95% delivery to boards of the national SLA for business as usual services on an annual basis and payment of approximately £2.5 billion to over 8,000 primary care practitioners to agreed standards of accuracy and timeliness.

93. The board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Performance and Finance Committee which met three times during 2017/18. We review Committee and Board papers and minutes to inform our assessment of how well NHS NSS is scrutinising performance.

94. Each meeting of the Performance and Finance Committee receives an integrated corporate performance report. Performance is reported using over 70 measures of performance. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

95. We concluded that the NHS NSS has an effective performance management framework in place helping the board achieve value for money and continually improve how it delivers services.

96. There is scope to develop the performance report in the annual report and accounts to be clearer on how well NHS NSS is delivering on its overall objectives. Changes to the Scottish budget process mean there will be increasing expectations on individual public bodies to set out their overall contribution in an accessible manner.

Value for money is concerned with using resources effectively and continually improving services.

Overview of service performance

97. The board's performance against its LDP targets as reported in the 2017/18 annual accounts, and based on the most up-to-date position at the end of March 2018 is summarised in [Exhibit 8](#).

Exhibit 8

Overall performance against LDP targets



Source: NHS NSS Performance and Finance Committee Papers May 2018

98. Overall, NHS NSS performs well against its targets, with most categorised as green or amber. There were three targets that are out with acceptable standards and more details on these and the amber targets are provided in [Exhibit 9](#).

Exhibit 9

Performance against key LDP targets not being met or exceeded

Target/standard	Performance at March 2018 ¹	Action being taken by Board
<p>PCF delivery £1m savings from fleet logistics programme.</p> <p>No savings were realised within the 2017/18 financial year.</p>	●	This has been reviewed for 2018/19 with a target of £240k savings excluding staff costs.
<p>A survey will be held on a quarterly basis of key e-health stakeholders.</p> <p>The target was to achieve 80% rating across all programmes. This survey did not take place.</p>	●	The IT team plan to utilise CEAD questionnaire in quarter 1 of 2018/19.
<p>Median time to provision data, post IG approvals, to be less than 60 days of clocked eDRIS time.</p> <p>Median time during 2017/19 was 94 days and this was due to staff</p>	●	Both issues now resolved, but there remains a significant challenge to reduce the aspired data provision timelines.

Target/standard	Performance at March 2018 ¹	Action being taken by Board
shortages and issues providing a copy of the data to Edinburgh University.		
<p>Reduce the potential for healthcare associated infection by testing and validating equipment for decontamination of reusable medical devices to greater than 90% against the planned programme.</p> <p>This was at 88% during 2017/18 due to staff sickness and vacancy.</p>	●	Outstanding machines were tested in April 2018, thus reducing backlog.
<p>NDC Revenue throughput £155m</p> <p>Remained below target at £149m in March due to adverse weather and flat trading at the year end.</p>	●	NA

Source: NHS NSS Performance and Finance Committee Papers May 2018

99. We have concluded that NHS NSS's arrangements for addressing targeted performance issues are reasonable and are geared towards addressing the areas of greatest risk.

ICT Contract Management Regime

100. NHS NSS is responsible for the procurement and management of range of contracts that are fundamental to the delivery of healthcare throughout Scotland. The types of contracts in place include:

- Framework arrangements for services or systems that can be accessed by local NHS boards via locally managed contracts;
- Service or supply contracts that allow the NHS in Scotland to achieve the economies of scale possible from large volume purchasing of goods such as pharmaceutical drugs, medical supplies and software licences;
- Procurement and direct management of a range of national infrastructure, services and systems used by all territorial or national NHS boards.

101. Within this wide range of contracts, many relate to the eHealth / ICT infrastructure, services or systems used throughout the NHS in Scotland. Our 2017/18 work focused on these. We considered how effective the overall arrangements within NHS NSS for procurement and contract management for such contracts are. Key aspects of the arrangement in place include:

- Executive financial oversight of all new contracts and contract changes is provided via the Contract Approval Board (the Chief Executive and Director of Finance are members of this group). This final stage of review provides management assurance that agreed funding is in place and that there has been appropriate consideration of NSS related risks before any significant commitment is made.
- Within the Procurement, Commissioning and Facilities (PCF) SBU there is a small, specialised team that provides procurement support and expertise for ICT contracts. The service that this team provides is covered by a Service

Level Agreement with all NHS Scotland boards. The advice and support of this team can be accessed directly by any board, but most of their work is assigned by the eHealth Leads Group. The work of this team is reported monthly to the eHealth Leads Group as part of the IT SBU regular eHealth update. There are no formal performance measures in place.

A key benefit of this team is that although all eHealth / ICT systems and services are different, the approach to procurement is broadly the same (and bound by many legal and regulatory requirements). This provides the opportunity for lessons learned on significant procurement exercises (for example, the recent CHI/Child Health procurement) to be easily captured, and used to improve the process for future programmes.

- The IT SBU is responsible for the direct management of a small number of national eHealth / ICT contracts. This function is discharged via the Contract, Vendor and Service Management Team (CVSMT).

102. We have met regularly with the CVSMT regularly to monitor progress of the PACS re-provisioning programme, and discuss the wider approach to contract management. The discussions at these meetings have been open and informative. We found that not all key supporting documents were readily available or kept up to date. It was difficult to readily establish all ICT contracts under management and those responsible for managing each of these.

103. The overall framework for managing ICT contracts in NHS NSS is not formally documented, although officers were able to summarise this for us when we met with them. This situation suggests that considerable reliance and dependence is placed upon the "corporate knowledge and memory" of many long-serving senior officers. This current ad hoc approach reduces the likelihood that future procurements (and contracts) can fully benefit from the lessons learned from previous contracts. A clearer overall approach is needed for all ICT contracts being procured or managed by the organisation, with improved management information to support decision-making.



Recommendation 7

NHS NSS should document its overall approach to ICT contract procurement and management. The board should also consider knowledge transfer and succession planning in this area.

104. Opportunities to build experience from one contract into another are pursued. For example, enhanced contract performance arrangements included in the recent PACS re-provisioning contract are based upon the principles in place and used to manage the National IT Services contract.

105. The CVSMT recognise the importance of developing a more consistent approach to contract management. The management disciplines (e.g. managing performance, managing payments, managing risks) for individual contracts directly managed by this team have been "mapped" using a "Service Matrix". This has identified areas of poor management in some of these contracts, and is being actively used by CVSMT management to identify staff development opportunities to address these gaps. We will continue to monitor progress in this area as further contracts are assessed using the matrix and action is taken to make improvements through this process.

Preparations for new public health body

106. The creation of a new Scottish public health body will have significant implications for NHS NSS, as services are expected to transfer to the new body. NHS NSS has established the "Enabling the public health body" programme to

apply programme management methodology to managing the transition. The impact of the public health body on NHS NSS is being assessed.

107. The programme board has undertaken a range of staff engagement, working with Health Scotland to share communications and undertake joint staff engagement exercises, fortnightly updates on staff intranet and engaging with the trade union to source staff feedback on the direction of travel. The programme board also provides regular progress updates to the NHS NSS Board.

108. The Public Health reform team at the Scottish Government has established several commissions including Protecting Health, Data and Intelligence and Improving Health. These are significant pieces of work with a number of deliverables and are led jointly with other organisations. The commissions are expected to help shape the structure of the public health body and the programme board are actively involved in responding to the commissions.

National performance audit reports

109. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

110. The NHS in Scotland 2017 report was considered by the Audit and Risk Committee at its 1 December 2017 meeting.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Training for finance staff</p> <p>We identified a number of errors in capital additions testing (e.g. capitalisation of recoverable VAT, maintenance and an instance where goods had not been received by the year end). Although not material in value, the number of errors found indicates that refresher training in this area would be useful, to minimise the risk of similar errors in future.</p> <p>Risk</p> <p>The financial statements may contain significant errors and misrepresent the financial position of the board.</p>	<p>The board should ensure that staff are familiar with the requirements of the NHS capital accounting manual, potentially through a training session.</p> <p>Exhibit 3</p>	<p>NHS NSS have addressed the individual errors with those concerned. Processes and procedures will be updated to ensure appropriate accounting treatment. All finance staff will be reminded of capital accounting guidance at the quarterly finance meeting to be held on 20th June 2018.</p> <p>Head of Corporate Reporting 20 June 2018</p>
2	<p>Disclosure errors in unaudited accounts</p> <p>A high level of disclosure errors was identified in the draft accounts; we consider that this is indicative of the accounts preparation workload pressure faced by key staff. It takes up additional officer and auditor time to review and correct these during an already pressured period.</p> <p>Risk</p> <p>A high level of disclosure errors in the initial unaudited accounts may undermine confidence in the quality of those accounts.</p>	<p>The board should ensure that there are adequate resources available to support the high level preparation of the accounts.</p> <p>Paragraph 24</p>	<p>A review of Finance is underway to inform the rotation of senior staff as part of the eHealth action plan.</p> <p>In addition, the 8 National Boards are developing a target operating model for Finance to address service sustainability challenges faced by all 8 boards.</p> <p>Both these initiatives will ensure that adequate resources will be in place to deliver against our core financial governance and reporting responsibilities</p> <p>Director of Finance and Business Services 31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Funds managed on behalf of NHS Scotland</p> <p>The board's action plan in relation to eHealth funds sets out important improvements to its scrutiny of funds managed on behalf of NHS Scotland, including improved reporting to the Performance and Finance Committee and Board. It is critical that the board strengthens its arrangements in this area to address identified weaknesses.</p> <p>Risk</p> <p>If the board does not demonstrate that it has delivered on its commitment to improve, then confidence in its governance of public funds may be diminished.</p>	<p>The board must ensure that improvements to its internal controls over funds managed on behalf of NHS Scotland are implemented to address weaknesses.</p> <p>Paragraph 41</p>	<p>Action Plan approved by the NHS NSS Board in April 2018. A number of agreed actions have been completed in line with agreed timescales. Progress will be monitored and reported to ensure the remaining actions are implemented timeously.</p> <p>Director of Finance and Business Services</p> <p>31 March 2019</p>
4	<p>Efficiency savings</p> <p>For each year from 2018/19 to 2022/23, NHS NSS is required to deliver 5% (£16.705 million) savings. The board has yet to identify £1.3 million of the savings required for 2018/19. There are wider gaps to be addressed in the four years to 2022/23.</p> <p>Risk</p> <p>The board may not be able to deliver the targeted savings over the next five years.</p>	<p>The board should ensure that savings plans are developed to close the gap between target and identified savings</p> <p>Paragraph 51</p>	<p>NHS NSS have set up a project team to address the future financial challenge and identify opportunities to close the savings gap. NHS NSS will continue to challenge ways of working to ensure services are delivered in the most cost effective way through the annual resource allocation meetings and the Once for NSS agenda.</p> <p>Furthermore NHS NSS continues to work closely with National Board colleagues. A financial framework has been developed which considers further cost saving/productivity opportunities and shared services to address the savings gap.</p> <p>Director of Finance and Business Services</p> <p>31 March 2019</p>
5	<p>External PSIAS review of internal audit required for compliance</p> <p>The board's internal auditor has not yet had an external review of compliance with the</p>	<p>The board should request that its internal auditor has an external review of compliance with the Public Sector Internal Audit Standards, and consider including this requirement</p>	<p>The Board's Internal Auditor has confirmed that this will be provided during the course of this year.</p> <p>The ability to demonstrate compliance with PSIA</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Public Sector Internal Audit Standards. This review is required every 5 years.</p> <p>Risk</p> <p>There is a risk that internal audit does not comply with the standards.</p>	<p>explicitly in the future procurement of internal audit services.</p> <p>Paragraph 69</p>	<p>standards will be explicitly required when the IA service is re-procured during 2018/19.</p> <p>Interim Director of Strategy and Governance</p> <p>31 December 2018</p>
6	<p>Compliance with General Data Protection Regulations</p> <p>NHS NSS has identified some gaps in progress on meeting all the requirements of GDPR.</p> <p>Risk</p> <p>Non-compliance with GDPR could result in data breaches, fines and adverse publicity as a result.</p>	<p>NHS NSS should take action to address compliance issues.</p> <p>Paragraph 87</p>	<p>At 25 May 2018, it was estimated that NSS sat at between 85-90% compliant with GDPR, with gap analysis carried out to determine the final adjustments needed to meet the legislation. It is anticipated that the majority of these actions will be complete by the end of Quarter 3.</p> <p>Interim Director of Strategy and Governance</p> <p>31 December 2018</p>
7	<p>ICT contract management</p> <p>The overall framework for managing ICT contracts in NHS NSS is not formally documented; considerable reliance is placed upon "corporate knowledge and memory".</p> <p>Risk</p> <p>This ad hoc approach reduces the likelihood that future procurements (and contracts) can fully benefit from the lessons learned from previous contracts.</p>	<p>NHS NSS should document its overall approach to ICT contract procurement and management. The board should also consider knowledge transfer and succession planning in this area.</p> <p>Paragraph 103</p>	<p>We recognise the importance of developing a more consistent approach to contract management and we will ensure effective alignment between Strategic Sourcing and the CVMT as improvements are made in this aspect of our work. Work is underway with regard to succession planning and development of staff, and this will be reflected in future workforce plans.</p> <p>Interim Director of IT and Director of Procurement, Commissioning and Facilities</p> <p>31 March 2019</p>

Follow up of prior year recommendations

b/f	<p>1. Website links</p> <p>The Board has a range of information publicly available on its website regarding the Board's standards of conduct and its approach to preventing and detecting bribery and corruption. Several links to this information on the NHS NSS website do not</p>	<p>The NHS NSS website links to information on standards of conduct and arrangements for the prevention and detection of bribery and corruption should be updated to reinstate the intended access to this information.</p>	<p>Updated audit response</p> <p>NHS NSS has corrected the two website links for the Standards of Conduct and the Register of Interests.</p> <p>No further action required: Closed</p>
-----	--	---	--



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>currently work; including the link to the register of interests for Board members.</p> <p>Risk Public perception of the usefulness of the NHS NSS website may be diminished if information is not readily accessible.</p>		
b/f	<p>2. Efficiency savings For 2017/18 the Board is required to deliver 5% (£16 million) savings. The Board has yet to identify £2.3 million of these savings. There are similar gaps to be addressed in future years, and the percentage of those savings which are considered high risk and which may not materialise increases in later years.</p> <p>Risk The Board may not be able to deliver the target savings required.</p>	<p>The Board should ensure that saving plans are developed identifying how the target efficiency savings will be made.</p>	<p>Updated audit response NHS NSS met (and exceeded) its 2017/18 savings target. No further action required: Closed</p>
b/f	<p>3. Framework Document The Framework Document between NHS NSS and the Scottish Government states that the framework should be reviewed at least every 2-3 years. There is no evidence of recent review.</p> <p>Risk The Framework Document may not accurately reflect how the Board operates, including key roles and responsibilities.</p>	<p>The Framework Document between NHS NSS and the Scottish Government should be reviewed in line with the stated frequency of every 2-3 years, and a record kept of the review date.</p>	<p>Updated audit response The framework document was reviewed and updated in 2017/18. It is published on the NHS NSS website. No further action required: Closed</p>
b/f	<p>4. Transparency In response to a previous audit recommendation, the NHS NSS Board considered whether it should routinely publish the papers submitted to standing committees. It agreed that, subject to appropriate confidentiality considerations,</p>	<p>Clear information should be provided on the NHS NSS website about availability of committee papers.</p>	<p>Updated audit response The Board website has been updated to include details of how individuals may request committee papers. No further action required: Closed</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Committee papers would be made available to the public on request. It is not readily apparent from the organisation's website that such a policy is now in place.</p> <p>Risk Interested parties may not be aware they can request Committee papers.</p>		
b/f	<p>5. Picture Archiving and Communication System (PACS) The PACS national archive hardware is nearing the end of its practical support life, and the software has reached the end of its support lifecycle. A significant upgrade has been recommended. A small number of the Local Site Stores at territorial boards no longer have the capacity to meet the contractual storage requirement.</p> <p>Risk If the PACS national archive fails, patient image records may be lost. The Board should ensure that robust arrangements are in place to ensure business continuity and system resilience for PACS.</p>	<p>The Board should ensure that robust arrangements are in place to ensure business continuity and system resilience for PACS.</p>	<p>Updated audit response</p> <p>The proposed actions were updated following the agreement of the action plan, as more appropriate solutions were identified and developed.</p> <p>Since February 2018, tape back up is no longer used as NHS NSS is moving towards a full data replication system. New agreements have been reached with both Atos and Carestream to clarify responsibility for PACS support.</p> <p>Data migration is ahead of schedule and although both primary and Disaster Recovery kit remain co-located, plans are in place to relocate Disaster Recovery kit to a second site by the end of January 2019.</p> <p>No further action required: Closed</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>The focused testing of accruals and prepayments found two instances where prepayment balances were incorrectly classified and incorrectly coded on the face of the financial statements. These have been adjusted in the accounts (see Appendix 3a).</p> <p>Detailed testing of journal entries did not show any inappropriate or unusual transactions.</p> <p>The review of accounting estimates did not show any area of possible management bias.</p> <p>No significant transactions outside the normal course of business were identified.</p>
<p>2 Risk of fraud over income</p> <p>ISA 240 requires the auditor to presume that there are risks of fraud in revenue recognition. NHS National Services Scotland receives a significant amount of income in addition to Scottish Government funding. The Board's share of non-SG sources of income continues to increase. The extent and complexity of income means that, in accordance with ISA240, we have planned audit procedures in response to the assessed risk.</p>	<p>Analytical procedures on income streams.</p> <p>Review of contracts and agreement to actual spend.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Analytical procedures on income streams showed no unusual transactions.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk did not identify any areas of concern.</p> <p>We carried out additional audit procedures on funding allocations and adjustments to ensure that adjustments were valid (see paragraphs 34-40). This work did not identify any areas of concern.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current</p>	<p>Completion of 'review of the work of an expert' for the relevant professional valuer.</p> <p>Focused substantive testing of key areas to valuation</p>	<p>We found that the employee benefit accrual has been understated by a minor amount (below the reporting threshold). Finance staff have agreed to change the number of working</p>

Audit risk	Assurance procedure	Results and conclusions
<p>assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>certificates/ provision assumptions.</p> <p>Review of accounting policies to ensure they are reasonable and appropriately applied.</p>	<p>days used in the calculation for next year.</p> <p>The 'review of the work of an expert' for the professional valuer confirmed the expert's reliability and no issues for concern were identified in respect of their professional judgement.</p> <p>Focused substantive testing of key areas valuation certificates/ provision assumptions showed that there was audit evidence to support estimates and judgements made.</p>
<p>4 Electronic Employee Support System (eESS) interface</p> <p>The eESS interface between the HR and Payroll systems is now live. As this is a new feature of the systems which produce the staff costs in the financial statements, we will test the operation of the interface and internal controls over the completeness and accuracy of information held on the HR and Payroll systems.</p>	<p>Initial system review of the HR system including walkthrough of the system.</p> <p>Focused testing of leavers, starters and changes to staff data across both systems.</p> <p>We plan to place some reliance on Internal audit's 2015/16 work on the Payroll system.</p>	<p>Not all processing interfaces automatically across both systems and there is some element of manual intervention still required.</p> <p>The sample testing of leavers, new starts and changes confirmed that staff data across both systems was accurate.</p>
<p>5 Jack Copland Centre</p> <p>Construction of the Jack Copland Centre (JCC) is now complete and the centre is expected to be operational by the end of the 2017/18 financial year. We will review the accounting treatment for bringing this asset into the asset register in its first year of operation.</p>	<p>Completion of the 'review of the work of an expert' for the professional valuer.</p> <p>Review of the accounting treatment of the asset at the year end.</p>	<p>The 'review of the work of an expert' for the professional valuer confirmed the expert's reliability and no issues for concern were identified in respect of their professional judgement.</p> <p>We are content with the accounting treatment of the JCC.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 Financial sustainability</p> <p>NHS National Services Scotland reported in 2016/17 about funding pressures on the range of services that it provides due to relatively modest increases in funding combined with a high requirement for Cash Releasing Efficiency Savings (CRES). This represents an increasing challenge over the lifetime of the Local Delivery Plan.</p>	<p>Review of medium to long term financial planning in support of Local Delivery Plan.</p>	<p>NSS achieved efficiency savings of £18.2 million against a target of £16.0 million in 2017/18.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7 New public health body</p> <p>The Scottish Government's December 2016 "Health and Social Care Delivery Plan" announced the creation, by 2019, of a new national public health body. The Scottish Government has confirmed that people and services from NHS National Services Scotland will transfer to the new body. NHS NSS will need to manage this transition in the period to April 2019, when the new body will be operational.</p>	<p>Review of the Board's preparations for the transfer of services and people to the new body.</p>	<p>NHS NSS is engaging with key stakeholders.</p> <p>Staff engagement activities are taking place and staff are kept updated.</p> <p>Arrangements for the transition are still at a relatively early stage. Scottish Government commissions are still being issued for completion; these commission are intended to shape future delivery of public health services.</p>
<p>8 Financial management</p> <p>The most recent finance monitoring report forecasts that savings targets will be met by the 2017/18 financial year end; however, until the year end it is not possible to conclude that NHS NSS's financial targets will be met.</p>	<p>Review of finance reports to the Performance and Finance Committee.</p> <p>Monitor updates to financial plans.</p> <p>Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>The Board operated within its revenue and capital resource limits for 2017/18.</p> <p>NHS NSS achieved efficiency savings of £18.2 million against a target of £16.0 million.</p> <p>Testing of income and expenditure transactions showed that they were accounted for correctly.</p>
<p>9 Cyber security</p> <p>The Scottish Government has drafted new guidance on cyber security for public sector bodies. We will review NHS NSS's arrangements for cyber security, including its response to the Scottish Government.</p>	<p>Review of cyber security arrangements including how NHS NSS has responded to the Scottish Government's draft best practice guidelines on cyber resilience.</p>	<p>NHS NSS is actively strengthening its cyber resilience arrangements. The board completed its Cyber Essentials pre-assessment by the required date (31 March). NHS NSS is also working towards Cyber Essentials accreditation.</p>
<p>10 Contract management regime</p> <p>NHS National Services procures and manages national IT contracts on behalf of NHS Scotland. There is a range of models in use for these contracts, including complex, multi-supplier contracts. It is important that NHS NSS uses IT procurement to drive business change and ensure that IT procurement is fit for future services.</p>	<p>Review of contract management regime within NHS NSS.</p> <p>Progress update meetings with Contract, Vendor and Service Management team.</p>	<p>The overall framework for managing ICT contracts in NHS NSS is not formally documented; considerable reliance is placed upon "corporate knowledge and memory". This ad hoc approach reduces the likelihood that future procurements (and contracts) can fully benefit from the lessons learned from previous contracts. See Appendix 1 recommendation 7.</p>

Appendix 3a

Summary of corrected misstatements

We report all misstatements that are individually greater than our reporting threshold of £80,000. However, we consider these differences for the health board are potentially material by nature, due to the requirement to achieve a break-even position against set resource limits.

111. The table below summarises misstatements that were noted during our audit testing and were corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Statement of comprehensive net expenditure		Statement of financial position	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Prepayments				
	Prepayments				(416)
	Accrued income			416	
2	Receivables				
	Accruals				(248)
	Prepayment			248	
3	Pharmacy rebates				
	Receivables				(2,735)
	Payables			2,735	
Net impact				3,399	(3,399)

Notes:

1. Entry 1 relates to the incorrect coding of accrued income of £416,000 in prepayments due after more than 1 year.

2. Entry 2 relates to accruals incorrectly recognised as prepayments as the amount had not actually been pre-paid at the year end and no invoice received.

3. Entry 3 relates to pharmacy rebates incorrectly included in NHS NSS payables and receivables.

Appendix 3b

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £80,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Statement of comprehensive net expenditure		Statement of financial position	
		Dr £000	Cr £000	Dr £000	Cr £000
1	VAT overpaid (contingent on HMRC agreement)				
	Receivables (VAT recoverable)				(538)
	Payables			538	
2	Assets Under Construction				
	Trade and other payables (Accruals)			172	
	Property, Plant and Equipment (Assets Under Construction)				(172)
3	Property, Plant & Equipment (Buildings)			83	
	Impairments		(83)		
	Net impact	0	(83)	793	(710)

Notes:

- Entry 1 relates to VAT charged on a number of sales invoices which should have been outside the scope of VAT.
- Entry 2 relates to capitalisation of expenditure on customisation of vans that were not received or paid for by the year end.
- Entry 3 relates to capitalisation of recoverable VAT on assets under construction which were completed and transferred to Buildings in 2017/18.

Appendix 4

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

NHS relevant reports

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[NHS in Scotland 2017](#) – October 2017

NHS National Services Scotland

2017/18 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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