

# NHS National Services Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

28 June 2019

## 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.

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# Key messages

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## 2018/19 annual report and accounts

- 1 NHS National Services Scotland's (NHS NSS) financial statements give a true and fair view and were properly prepared.
- 2 Expenditure and income were in accordance with applicable enactments and guidance.
- 3 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 relevant legislation and directions made by Scottish Ministers.

## Financial management

- 4 NHS National Services Scotland has appropriate and effective financial management arrangements in place. The board met all its financial targets for 2018/19 and achieved an underspend of £0.422 million against its revenue resource limit.
- 5 Systems of internal control operated appropriately and effectively in 2018/19 with scope for control improvement in some areas.
- 6 The board should arrange an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards.

## Financial sustainability

- 7 NHS National Services Scotland has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium and longer term.
- 8 NHS National Services Scotland achieved its savings target in 2018/19 but will find it increasingly difficult to maintain financial balance in the medium term.

## Governance and transparency

- 9 NHS National Services Scotland has effective 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 2017/18.
- 10 NHS National Services Scotland is open and transparent in the way it conducts its business.
- 11 NHS National Services Scotland has made good progress in implementing improvements in its governance of funds managed on behalf of NHS Scotland, but continued focus is required to ensure these are properly embedded across the organisation.

- 12** There is scope to develop the narrative of the performance report to be a more accessible account of overall performance and more consistent with other corporate publications.

## Value for money

- 13** 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.
- 14** There has been limited progress in documenting the organisation's approach to ICT contract management.
- 15** Progress in developing collaboration across national boards is slow. NHS National Services Scotland has contributed £6 million of savings towards the national boards' £15 million target.
- 16** Overall, NHS National Services Scotland is preparing well for the transfer of services and people to Public Health Scotland, but uncertainties remain which are outwith the board's control.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of NHS National Services Scotland (NHS NSS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 5 December 2018 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:
  - a review of the board's main financial systems
  - an audit of the board's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
  - consideration of the four audit dimensions.

## Adding value through the audit

4. We add value to NHS NSS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help NHS NSS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. NHS NSS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The board's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration Report and Staff Report, and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

7. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor is established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. 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](#) and supplementary guidance.

11. 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.

**12.** 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 any outstanding actions from last year and progress against these.

**13.** 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 2018/19 audit fee of £181,480, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** 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](http://www.audit-scotland.gov.uk) in due course.

**15.** 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 2018/19 annual report and accounts



### Main judgements

**NHS NSS'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 report and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.**

The 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.

### Audit opinions on the annual report and accounts

**16.** The annual report and accounts for the year ended 31 March 2019 were approved by the board on 28 June 2019. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and 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 relevant legislation and directions made by Scottish Ministers.

**17.** Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

**18.** We received the unaudited annual report and accounts on 29 April 2019, in line with our agreed audit timetable. Some sections of the Performance Report and Governance Statement were still to be updated as some relevant committee meetings were held in May and, as noted below, the final allocation letter was still to be received from the Scottish Government. Some notes to the accounts were incomplete, including all entries relating to the Jack Copland Centre Non-Profit Distributing (NPD) Project.

**19.** The working papers provided on this date were incomplete. The full set was provided on 7 May 2019 and was of a generally good standard. Finance staff worked hard with audit staff to meet the final deadlines for the audited accounts and audit report. We will be working with Finance staff to agree a process to obtain

more source documentation as part of the initial working papers package at the start of the audit. Automation of some processes in Finance is planned and should help with workload pressures during the accounts preparation period.



### Recommendation 1

**NHS NSS should progress plans to ease workload pressures on Finance staff during the year end accounts preparation period, including automation of some processes. Refer [Appendix 1](#)**

## Risks of material misstatement

**20.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**21.** We reported on four risks of material misstatement in our 2018/19 Annual Audit Plan and five risks in relation to our work on wider dimensions. We have no issues to report from the work done on the risks of material misstatement and gained sufficient assurance to address the four risks. The five wider dimensions risks in relation to financial sustainability, financial management, ICT contract management, preparations ahead of UK withdrawal from the EU and arrangements for the move of resources to Public Health Scotland remain ongoing issues for the board and are therefore included in an action plan in [Appendix 1](#).

## Materiality

**22.** 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.

**23.** 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.

**24.** On receipt of the unaudited 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	£7.32 million
Performance materiality	£3.66 million
Reporting threshold	£80 thousand

Source: NHS NSS unaudited Annual Report & Accounts for the year to 31 March 2019

## Significant findings from the audit in accordance with ISA 260

**25.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**26.** The significant findings 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.

### Exhibit 3

#### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Allocations letter</b></p> <p>The financial performance table within the Performance Report and the Summary of Resource Outturn (SORO) in the unaudited accounts submitted for audit did not include the final figures in respect of the Revenue Resource Limit and Cash Requirement due to the accounts being prepared in advance of the final allocation letter being received from the Scottish Government.</p>	<p>The financial performance table and the SORO were updated when the final allocation letter was received</p>
<p><b>2. Classification adjustment - Income</b></p> <p>NHS NSS finance staff identified that Note 4 of the unaudited accounts included a misclassification error of £0.410m of income which had been incorrectly included in Income from NHS non-Scottish bodies; it should have been included within Income from Non NHS bodies.</p>	<p>An adjustment was made in respect of this to reflect the correct classification. The adjustment had no effect on the overall financial position of NHS NSS at 31 March 2019.</p>
<p><b>3. Classification adjustment – Staff costs</b></p> <p>ATOS costs of £0.217m were miscoded to Administrative Services employee expenditure leading to an overstatement of staff costs in the unaudited accounts.</p>	<p>These costs were moved from employee expenditure to corporate costs in the revised accounts. The adjustment had no effect on the financial position of NHS NSS at 31 March 2019.</p>
<p><b>4. PPP/PFI/NPD information</b></p> <p>The PFI/PPP/NPD information in respect of the Jack Copland Centre NPD project was not included in the unaudited accounts submitted for audit.</p>	<p>The Statement of Financial Position, Statement of Cashflows and notes 2, 7, 12, 18 and 22 were updated in the revised accounts and then audited, with no issues identified.</p>
<p><b>5. Typos and presentation errors</b></p> <p>A number of typos and presentation errors were identified in the unaudited accounts submitted for audit.</p>	<p>The majority of these have been corrected in the revised accounts.</p>
<p><b>6. Trade union facility time disclosure</b></p> <p>The trade union facility time disclosure required by the Trade Union (Facility Time Publication Requirements) Regulations 2017 was not included in the unaudited accounts. The disclosure made in the audited accounts includes an estimate of some facility time, as 10 of the 45 trade union representatives did not submitted the required data in time for collation. (Staff were working towards the website publication deadline of 31 July rather than the earlier annual report and accounts deadline.)</p>	<p>As this information is not within the audited part of the remuneration report, we have concluded that the inclusion of the facility time estimates (costed using payroll data) and the additional explanatory note in the Staff Report disclosure is acceptable.</p> <p> <a href="#">Recommendation 2</a></p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

## Qualitative aspects of the audit

**27.** We recommended some disclosure amendments for areas such as the Performance Report and the Governance Statement to ensure all risks and estimates were clearly and fully explained. These were subsequently included in the audited version of the accounts. We refer to the clarity of the performance report in [paragraph 101](#).

## How we evaluate misstatements

**28.** There were no material adjustments to the unaudited annual report and accounts arising from our audit. The individual misstatements identified did not exceed our reporting threshold and have been amended in the audited financial statements. There are no unadjusted errors to report.

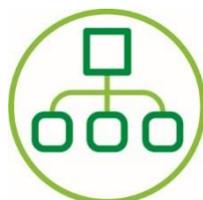
## Follow up of prior year recommendations

**29.** The board has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

**30.** Seven agreed actions were raised in 2017/18. Three have been implemented, and progress has been made on a further three recommendations, with some longer term work required to fully implement them. One agreed action is still to be implemented: there has been no external review of the internal audit service's compliance with Public Sector Internal Audit Standards (PSIAS): see [paragraph 48](#).

# Part 2

## Financial management



### Main judgements

NHS NSS has appropriate and effective financial management arrangements in place. NHS NSS met all its financial targets for 2018/19 and achieved an underspend of £0.422 million against its revenue resource limit.

Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvement in some areas.

The board should arrange an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards.

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

### Financial performance in 2018/19

31. NHS NSS, as required by statute, has 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 2018/19.

### Exhibit 4

#### Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	467.199	466.932	0.267
Non-core revenue resource limit	13.902	13.747	0.155
<b>Total revenue resource limit</b>	<b>481.101</b>	<b>480.679</b>	<b>0.422</b>
Core capital resource limit	7.077	7.024	0.053
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>7.077</b>	<b>7.024</b>	<b>0.053</b>
<b>Cash requirement</b>	<b>475.119</b>	<b>475.118</b>	<b>0.001</b>

Source: NHS NSS Annual Report and Accounts 2018/19

## Underspend against Revenue Resource Limit (RRL)

**32.** NHS NSS achieved an underspend of £0.422 million (0.09%) against its 2018/19 revenue resource limit of £481.101 million. This outturn is consistent with the 2018/19 NHS NSS budget which forecast a breakeven position. The Scottish Government has not yet confirmed if this sum will be returned to NHS NSS during 2019/20.

## Capital Resource Limit (CRL)

**33.** NHS NSS received a total capital allocation of £7.077 million. An underspend of £0.053 million was recorded (0.75%), which was in line with the budgeted breakeven position.

## Efficiency savings

**34.** NHS NSS was required to make efficiency savings of 5% in 2018/19. This is equivalent to a savings target of £16.704 million. The board exceeded this savings target by £1.818 million, achieving savings of £18.522 million.

**35.** We note that £14.322 million of the savings were achieved on a recurring basis with 23% (£4.2 million) achieved on a non-recurring basis. 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. Increased reliance on non-recurring savings is not sustainable in the longer term.

## Funding allocations

**36.** NHS bodies receive allocation letters throughout the year with funding often ring-fenced for specific purposes. An issue was identified by the Scottish Government during 2017/18 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.

**37.** The Scottish Government commissioned Grant Thornton to investigate 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. 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. We reviewed the board's progress in implementing these improvement actions: see [paragraphs 96 to 97](#).

**38.** We also reviewed allocation adjustments in 2018/19 to: confirm what in-year allocation adjustments were for; ensure that underspends were properly communicated to the Scottish Government where NHS NSS had requested an allocation adjustment; and ensure that the final allocation letter from the Scottish Government agreed to the funding in NHS NSS's financial statements.

**39.** The Scottish Government allocations have been closely managed this year with 95% of revenue allocations received by mid-year, compared to 10% received at the same point in 2017/18. This was an action taken by the Scottish Government in response to the eHealth issues at the end of the 2017/18 financial year.

**40.** NHS NSS 2018/19 funding allocations were adjusted by £22.007 million during the year as shown in [Exhibit 5](#). This reduced the board's overall allocation. Returning these amounts to the Scottish Government is part of its overall budget management for NHS Scotland.

## Exhibit 5

### Performance against resource limits in 2018/19

Type of adjustment	Description	Amount £m	% of total adjustment
<b>Savings achieved and returned to SG</b>	Contribution to £15m National Boards savings	6.000	
	Return of NSD Risk share to NHS Boards	2.000	
		<b>8.000</b>	<b>36</b>
<b>Underspend on Projects</b>	NSS Baseline (O365)	2.150	
	National Programmes (IT)	4.350	
	Transformation fund	0.510	
	Other National Programmes	0.726	
		<b>7.736</b>	<b>35</b>
<b>Corrections (SG error)</b>	PMS Capital Charges	1.991	
	NSD Agenda for change pay uplift	1.480	
	Low value allocation paid in error	0.675	
		<b>4.146</b>	<b>19</b>
<b>Adjustment for work carried out by other Boards</b>	eESS Programme funding NHS GG&C	1.750	
	SCOTSTAR	0.375	
		<b>2.125</b>	<b>10</b>
<b>Total</b>		<b>22.007</b>	<b>100</b>

Source: NHS NSS Allocations Tracker 2018/19 and Finance Procurement and Performance Committee May 2019

41. Returns in year also include a £9.026 million depreciation adjustment, a standard transfer of funding from core to non-core for depreciation charges in the year.

### Budgetary processes

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

43. We concluded that NHS NSS has appropriate budget setting and monitoring arrangements that allow both members and officers to carry out scrutiny of the board's finances.

## Systems of internal control

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

**45.** Our findings from the review of systems of internal controls were included in the management report presented to the Audit and Risk Committee on 29 March 2019. We concluded that the controls tested were operating effectively, with some areas of weakness identified, and we agreed a short action plan with management to address these. We carried out some additional testing in the areas identified, to give us assurance over the financial systems for our audit of the financial statements. No significant internal control weaknesses were identified during the audit which could affect NHS NSS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

## Internal audit

**46.** NHS NSS's internal audit function is carried out by KPMG LLP. We reviewed the board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We have placed reliance on internal audit's *2016/17 Treasury and Accounts Receivables* work for our 2018/19 financial statements audit responsibilities. We have also taken account of internal audit's reports for our wider dimensions audit responsibilities.

**47.** A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required once every five years. This requirement was introduced in 2013. The NHS NSS internal audit service has not yet had an external quality assessment carried out. We continue to recommend that NHS NSS should arrange an external review of internal audit's compliance with PSIAS.

**48.** PSIAS states that "The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced". PSIAS 1312 states that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation" and "An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest."



### Recommendation 5 (from 2017/18)

**The board should arrange an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards and consider including this requirement explicitly in the future procurement of internal audit services. Refer [Appendix 1](#), c/f section**

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## Standards of conduct for prevention and detection of fraud and error

**49.** Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**50.** We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions (which comprise the All Staff Code of Conduct) and the Standing Orders. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**51.** We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

## National Fraud Initiative

**52.** 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.

**53.** NFI activity is summarised in [Exhibit 6](#). There were a total of 6,312 matches, of which 6,281 were creditor matches and 31 were in respect of payroll. 698 matches were identified as having a potential fraud risk. The NFI system shows 19 of those identified as reviewed. NHS NSS has reviewed a further 600 matches offline; the outcome of this review is yet to be recorded on the NFI system. We understand that this will be updated on the system by the end of June. NHS NSS concluded that there was no fraud in respect of reviewed matches.



### Recommendation 3

**NHS NSS should record its NFI investigations on the secure NFI website to ensure that the results are captured for the national reporting of outcomes. Refer [Appendix 1](#)**

## Exhibit 6 NFI activity



6312

Matches



698

Identified as potential fraud  
risk (recommended for  
investigation)



619

Completed/closed  
investigations

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

**54.** NHS NSS routinely reports NFI activity to the Audit and Risk Committee as part of the general fraud update. There is a high level of fraud awareness in the board overall, particularly as Practitioner and Counter Fraud Services is a Strategic Business Unit of NHS NSS. NFI is effectively a stand alone addition to existing activity rather than an integral part of the counter fraud strategy. Overall, NHS NSS continues to engage positively with the NFI process.

## Shared systems

**55.** The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland procures service audits covering primary care payments, the national IT services contract, and the payroll services provided by NHS NSS to other boards; and NHS Ayrshire & Arran procures a service audit of the National Single Instance eFinancials service.

**56.** As your external auditor we have considered the content of the service auditor assurance reports, and any associated external audit report. There are no significant findings to draw to your attention.

## Dependency on key suppliers

**57.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

**58.** Due to the nature of NHS NSS's business, there is reliance on key suppliers that support operational activities across NHS Scotland. Five suppliers in 2017/18 made up approximately 28% of the total NHS NSS spend on suppliers, with three of the five being IT companies.

**59.** The largest national IT contracts have specific staff, including the Contract, Vendor & Service Management Team, to carry out continuing due diligence on suppliers.

**60.** IT have advised that there is ongoing monitoring of key suppliers and information about suppliers are captured via research and shared in the daily "stand up" sessions where all associate directors within the IT SBU dial in to share information from the previous day as well as expectations for the day. Any issues identified in respect of suppliers are reported and quickly escalated and brought to the attention of management.

**61.** The national procurement team provides advice and support on due diligence and supplier relationship management to NHS NSS and other health boards.

**62.** In a number of cases, there are various levels of protection for NHS NSS written into contracts with specific clauses in relation to termination events and the ability to step in should a service provision be at risk. The use of stockpiling and awareness of product lead times in a number of pharmaceutical products means that there is less of a risk of a disruption to services delivered to other boards if there is an issue with a supplier.

**63.** Overall, we concluded that the board's arrangements for managing the risk of key supplier failure are appropriate, but that risks remain. The board has responded well in two recent cases of a supplier going into administration.

## Good practice

**64.** NHS NSS was asked in September 2018 to lead on contingency arrangements for clinical waste collection and disposal across NHS Scotland following concerns being raised about a provider's NHS contracts in England. Contingency plans were invoked in December 2018 following the withdrawal of services to Scottish health boards by the contractor Healthcare Environmental Services Ltd (HES).

**65.** The contingency service is not a like for like service with that previously provided by HES and has resulted in significantly increased logistics costs and packaging requirements. For example, the available waste bins are smaller and must be manually moved, emptied and cleaned. Also. two new waste transfer

stations had to be set up, with close involvement from SEPA (and the Environment Agency for waste to be transferred to English disposal facilities).

**66.** The Scottish Government has agreed to fund the additional 2018/19 costs of £9 million but health boards must fund these costs in 2019/20. Contingency arrangements will continue until August 2019, when the new national contract with Tradebe starts.

**67.** NHS NSS will carry out a review of its contingency arrangements in 2019/20, to consider whether lessons can be learned and whether better value for money could have been obtained. The primary objective for contingency arrangements was to keep patient services operating; decisions were made quickly to ensure that objective was achieved.

# Part 3

## Financial sustainability



### Main judgements

**NHS NSS has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium and longer term.**

**NHS NSS achieved its savings target in 2018/19 but will find it increasingly difficult to maintain financial balance in the medium term.**

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.

### Financial planning

**68.** NHS NSS's Operational Delivery Plan (ODP) for 2018 to 2023 sets out how the board's financial, workforce and services plans implement its strategic priorities. Scottish Government guidance changed the focus from a strategic Local Delivery Plan to an Operational Delivery Plan which shows relevant performance measures.

**69.** The 2018/19 Operational Delivery Plan was submitted to the Scottish Government in line with the required timescales. It was approved by the NHS NSS Board on 6 April 2018.

**70.** NHS NSS's five-year financial plan is a key component of the Delivery Plan and sets out how the board plans to achieve financial balance over the period. The five-year financial plan forecasts a balanced position in the first three years from 2019/20 and a deficit in later years. The plan also recognises the significant financial challenges facing the board.

**71.** There are significant funding pressures over the duration of the plan. A flat cash settlement (i.e.0%) is expected in each year of the plan, other than National Services Division (NSD) which will receive 1.5% in line with Scottish Government assumptions for non-patient facing national boards.

**72.** NHS NSS has developed a service sustainability plan which outlines key actions necessary to ensure NHS NSS remains financially sustainable over the five year planning horizon.

**73.** The Cabinet Secretary announced in October 2018 that Boards would move to a three year planning and performance cycle, which supports the delivery of the Health and Social Care Medium Term Financial Framework. Boards are required to set out a breakeven position over the three year planning period. Where this requirement is met, boards will have flexibility to report under or overspends of up to one percent of boards' core revenue resource funding. NHS NSS's submission reported a break-even projection in each year of the cycle with no need for any flexibility.

## Changing landscape for public financial management and medium to long term financial planning

**74.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

**75.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**76.** We reviewed the financial planning arrangements of NHS NSS and assessed the extent to which the board identifies and addresses the risks to financial sustainability across the medium and long term.

### Medium to long term efficiency savings

**77.** NHS NSS is required to achieve efficiency savings of 5% of baseline RRL in 2019/20 and in each subsequent year of the plan. This is equivalent to an annual saving of £16.705 million. In determining available resources for 2019/20, the baseline funding for 2018/19 was rolled forward, with 5% of the total retained to meet CRES in each year. SBUs are then tasked with submitting 5 year financial and workforce plans which delivered a break-even position over the planning period. While the SBUs have well defined plans to achieve CRES targets in 2019/20, plans for future years are not well developed.

**78.** The board's revenue plan also makes provision in Reserves of £5.5 million each year as a recurring contribution to the National Board Collaboration target of £15m. There is still uncertainty around the full £15 million target being met and if savings are from collaboration.



#### Recommendation 4 (from 2017/18)

**The board should ensure that savings plans are developed identifying how the target savings of £16.705 million will be made in future years. Refer [Appendix 1](#), c/f section**

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**79.** SBUs have found it increasingly difficult to deliver 5% CRES on a recurring basis whilst continuing to deliver the same level of services. This is reflected in an increasing SBU trading deficit, rising from £4.4m in 2019/20 to £31.8 million in 2023/24 as illustrated in [Exhibit 7](#). Whilst in balance over the first three years of the plan, there is a deficit in later years, significantly impacting on NHS NSS's ability to continue to invest in services to become more efficient and effective.

## Exhibit 7

### Revenue plan 2019/20 to 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
SBU Trading Position	(4,358)	(12,938)	(18,978)	(25,236)	(31,823)
Reserves	10,950	16,205	20,006	24,745	29,068
<b>NHS NSS Total</b>	<b>6,592</b>	<b>3,222</b>	<b>1,028</b>	<b>(491)</b>	<b>(2,755)</b>

Source: NHS NSS Board Financial Plan – 2019/20 – 2023/24

## Workforce planning

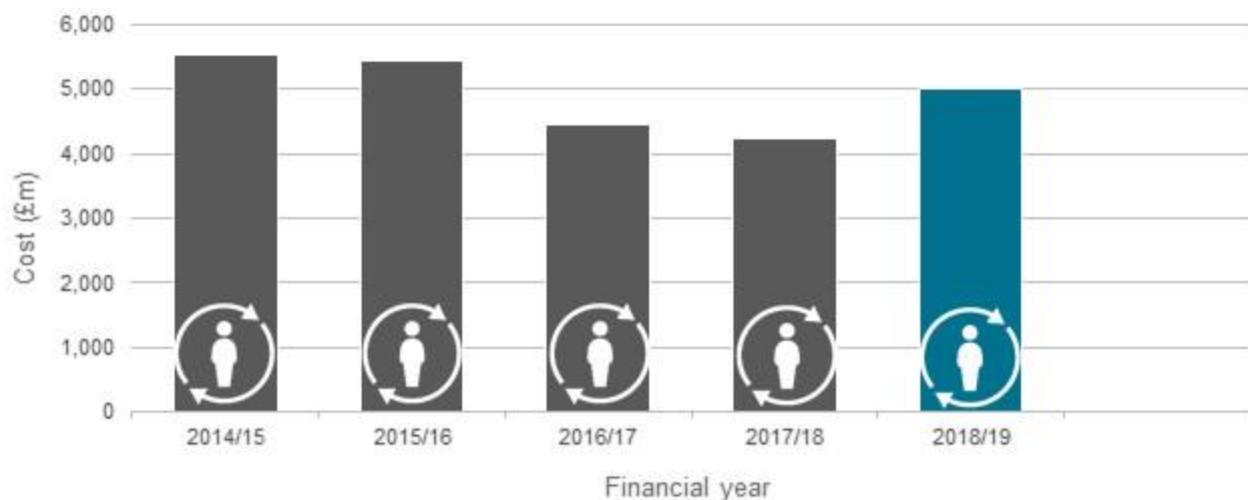
**80.** While NHS NSS does not have the workforce challenges facing a number of territorial boards, it recognises the need for detailed work to reflect the future shape of the workforce, taking account of plans to transform services and make the most of digital technology. Workforce projections based on SBU workforce plans show a fairly static workforce for the five years to 2023/24.

**81.** KPMG's review of Workforce Planning reported to the 14 June ARC found that existing processes around workforce planning in NHS NSS need enhanced governance to ensure consistency of practices, optimisation of resources and effective workforce planning. In addition, a follow up of a previous report found that a number of recommendations are yet to be implemented including the need for a detailed workforce plan and a documented action plan for each SBU.

**82.** NHS NSS is not reliant on temporary staff to deliver its services and does not have the pressures to meet waiting time targets that territorial boards face. Expenditure on temporary staff has remained fairly static over the last five years as illustrated in [Exhibit 8](#). With spending on temporary staff decreased from 4.2% (£5.531m) in 2014/15 to 3.2% (£5.001 million) in 2018/19; with 2018/19 being an increase on the 2017/18 spend on agency staff.

## Exhibit 8

### Temporary staff costs



Source: NHS NSS Annual Report and Accounts 2014/15 – 2018/19

**83.** The use of agency staff to increase capacity for seasonal fluctuations and time limited projects is more common within the National Distribution Centre and IT and Programme Management Services. It is unclear at this point what effect the current Digital and Security (IT) SBU expertise recruitment drive will have on agency costs for 2019/20, however, NHS NSS continues to closely manage agency staff costs.

**84.** The national performance standard for sickness absence is 4%. As at March 2019 the sickness absence rate for NHS NSS was 4.2% compared to 3.9% for the comparable period last year. A number of measures have been put in place by the board to address the increase including events and initiatives run by the Healthy Working Lives team to raise awareness of stress and mental health issues and the support mechanisms in place for both staff and managers.

## EU withdrawal

**85.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. 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 – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**86.** Our discussions with key staff and review of documentation show that NHS NSS started work early to assess the impact of Brexit on the board as well as its implications for its business. This included completion of the Board Operational Readiness questionnaire for the Scottish Government.

**87.** EU Withdrawal has been and continues to be considered by the NHS NSS Board and the Executive Management Team. It is included on the risk register with potential impacts on NHS NSS's reputation, business, clinical and staff. Contingency planning arrangements are in place to mitigate this risk amidst the ongoing uncertainties around the withdrawal date.

**88.** NHS NSS plays a pivotal role in contingency arrangements, engaging with the Scottish Government, NHS Scotland, territorial boards, the Department for Health and Social Security as well as other devolved authorities. Its role includes some stockpiling (medical devices and consumables) on the direction of the Scottish Government as well as the setting up of a response service that boards can contact where there is a specific Brexit related shortage and NHS NSS will act as a liaison for NHS Scotland with UK contingency arrangements.

**89.** NHS NSS's arrangements for EU Withdrawal appear to be reasonable. The board is conscious of the important role it plays in Scotland's contingency arrangements and continues to engage with stakeholders while taking the possible impact on staff and resources into consideration.

## Good practice

**90.** NHS NSS engaged early with the EU withdrawal process and the board and EMT considered a number of papers on the implications of Brexit on NHS NSS including detailed responses at SBU level to the Scottish Government questionnaire on Board operational readiness. Whilst there was and still is some uncertainty around the withdrawal process, the board ensured that possible impacts were considered.

# Part 4

## Governance and transparency



### Main judgements

**NHS NSS has appropriate governance arrangements in place that support scrutiny of decisions made by the board.**

**NHS NSS is open and transparent in the way it conducts its business.**

**NHS NSS has made good progress in implementing improvements in its governance of funds managed on behalf of NHS Scotland, but continued focus is required to ensure these are properly embedded across the organisation.**

**There is scope to develop the narrative of the performance report to be a more accessible account of overall performance and more consistent with other corporate publications.**

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.

### Governance arrangements

**91.** The NHS NSS Board and Accountable Officer are responsible for establishing arrangements to ensure proper conduct of affairs at NHS NSS and for monitoring the adequacy of these arrangements.

**92.** 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. We also attended a Finance, Procurement and Performance Committee meeting where the "eHealth lessons learned" were presented.

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

- the Standing Orders and Standing Financial Instructions (SFI) are updated regularly. Both documents were updated in June 2018 and are available to all staff, and to the public on NHS NSS's website;
- there is a good level of scrutiny and challenge by members. Board members are kept up to date on current issues which allows them to exercise effective scrutiny;
- the quality of papers provided to members is satisfactory, with a good balance between narrative summary and further detail of content.

**94.** We did note that the length of meeting agendas means that discussion of items can be very time pressured, and that lengthy agenda papers can be challenging for members to read in advance of meetings.

**95.** We concluded that the board has a strong focus on good governance and the responsibility that everyone across the organisation has for this.

**96.** The board agreed a plan of improvement actions last year in response to weaknesses identified in its oversight of eHealth funding. The improvement actions included:

- comprehensive review of SFIs (actioned);
- training for all finance staff on the role of finance, and how to challenge and raise matters of concern (actioned);
- rotation of senior finance staff between SBUs (actioned);
- training for non-financial managers on financial management (actioned);
- improved oversight of funds managed on behalf of NHS Scotland through reporting to the Executive Management Team, the Finance, Procurement & Performance Committee and the Board (actioned); and
- CIPFA Business Partner training for all management accounting staff (actioned). In addition, NHS NSS is participating in a Business Partnering pilot run by Arcus, along with two other boards. This involved an assessment of current practices and training for key staff. This work is shaping the future operating model for finance being implemented by NHS NSS.

**97.** The initial timescale for some of these actions slipped as the practicalities of implementation became more evident, but we concluded that the board has made good progress in implementing the improvement actions. Continued focus is required to ensure that arrangements, particularly reporting through NHS NSS governance structures for funds managed on behalf of NHS Scotland, are fully embedded across the organisation.

## Openness and transparency

**98.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. 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.

**99.** There is evidence from a number of sources which demonstrates NHS NSS's commitment to transparency including the public availability of board papers and the annual accountability review, in line with other health boards.

## Performance report

**100.** In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

**101.** There are a number of characteristics of financial reporting which make for a high quality performance report. Audit Scotland has prepared [good practice notes](#) on improving the quality of accounts including the performance report and governance statement. There is scope for NHS NSS to develop the narrative of the performance report to be a more accessible account of overall performance and more consistent with other corporate publications. The content of the report is prescribed in the NHS accounts manual (and NHS NSS discloses the required information) but the board can choose how to present this content.



## Recommendation 4

**The board should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications. Refer [Appendix 1](#)**

### Transparent reporting of financial and performance information

**102.** The Finance, Procurement and Performance Committee received finance and performance reports at each of its four meetings in 2018/19. These reports provide clear information on performance against the Operational Delivery Plan targets, which supports effective scrutiny and challenge. As noted above, the reporting of funds managed on behalf of NHS Scotland has improved during the year.

### 2020 Vision

**103.** 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.

**104.** The Scottish Government requested National Boards to plan collaboratively. The National Boards delivery plan sets out the collaborative potential to support health and social care 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 on a recurring basis from increased collaboration. The national boards collaboration plan is yet to be published.

**105.** The savings target of £15 million has not been achieved in 2018/19; £2.7 million is being carried forward to 2019/20. NHS NSS achieved its £5.5 million share of the 2018/19 target savings and agreed to contribute a further £0.5 million when additional savings were achieved in the year, bringing NHS NSS's contribution to the national board savings target to £6.0 million.

**106.** 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.

**107.** This work continues and while good progress is being made in areas such as the preparation for Public Health Scotland, there is still more to be done to ensure that the savings from National Boards are from collaborative working.

### General Data Protection Regulation

**108.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

**109.** We reported in 2017/18 that NHS NSS identified some gaps in progress on meeting all the requirements of GDPR (see [Appendix 1](#) – prior year follow up recommendation 6). The board is addressing the gaps identified and provides updates on GDPR compliance, including the agreed action plan, to the Information

Governance Committee. The May 2019 update identified key risk areas as (1) the rights imposed by the new law which raise particular IT challenges for some NHS NSS systems and (2) ensuring NHS NSS has a framework and evidence that demonstrates it meets its GDPR obligations with the principles of data protection by design and default adequately embedded throughout the organisation and its processes.

# Part 5

## Value for money



### Main judgements

**NHS NSS 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 has been limited progress in documenting the organisation's approach to ICT contract management.**

**Progress in developing collaboration across national boards is slow. NHS NSS has contributed £6 million of savings towards the national boards' £15 million target.**

**Overall, NHS NSS is preparing well for the transfer of services and people to Public Health Scotland, but uncertainties remain which are outwith the board's control.**

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

### Performance management

**110.** 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.

**111.** The board is kept informed of performance across all areas. The detailed review and scrutiny of performance is delegated to the Finance, Procurement and Performance Committee, which met four times during 2018/19. We review Committee and Board papers and minutes to inform our assessment of how well NHS NSS is scrutinising performance.

**112.** Each meeting of the Finance, Procurement and Performance Committee receives a financial performance report and an ODP performance report, covering the 58 ODP indicators used to measure performance.

**113.** 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.

### Overview of service performance

**114.** The board's performance against its 58 ODP targets as reported in the 2018/19 annual accounts and based on the most up-to-date position at the end of March 2019 is summarised in [Exhibit 9](#).

## Exhibit 9

### Overall performance against ODP targets



Source: NHS NSS Finance, Procurement and Performance Committee Papers May 2019

**115.** 95% of 2018/19 targets were met or exceeded, with only three categorised as amber. There were no targets where performance was more than 10% below target. More details on the three amber targets are provided in [Exhibit 10](#). As these are all within 10% of the original target, no corrective action is considered necessary by the board.

**116.** Targets which were exceeded included: reducing the potential for healthcare associated infections by implementing the decontamination strategy (98% of year 3 actions achieved against 95% target); achieving deliverables in the Antimicrobial Resistance and Healthcare Associated Infections (ARHAI) framework, supporting the ARHAI national strategy (98% against 95% target); testing and validation of equipment for reusable medical devices (96% of programme delivery against 90% target); payments to primary care practitioners (99.9% accuracy against 99.5% target); and National Contract delivered savings (£85.4m savings against £50m target).

## Exhibit 10

### Performance against key ODP targets

Target	Performance at March 2019	Action being taken by board
Better data: All participating Health Boards and partnerships will have an agreed number of indicators for adult inpatients by nurse family and an IT supported approach to submitting data to ISD. Submitted data will be visualised through Tableau hosted information system known as Care Assurance Improvement Resource.	●	16 out of 17 Boards have submitted data with NHS 24 being given further support to do so. The wider development of the system will not be impacted by lack of NHS 24 data as each Board has access to their own data.
Better data: Data submission and quality assurance of social care data complete by October 18 in order to provide Scottish Government with social care data. Design and input new output on social care activity	●	31 out of 32 data sharing agreements received. Engagement continues with Glasgow. They have reviewed the Data Sharing agreement and feedback has been given to us. Updated documentation has been

Target	Performance at March 2019	Action being taken by board
on Source and publish Official Statistics thereafter.		sent back. Meantime, aggregate data has been provided to allow a top level Scotland report to be provided.
Better Value: Collaborative contract coverage of £1.4bn	●	At £1.338bn against a target of £1.4bn. Continued strong savings achievement makes this target challenging to achieve without taking on new areas of devolved spend.

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: NHS NSS Finance, Procurement and Performance Committee Papers May 2019

**117.** 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

**118.** 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.

**119.** Within this wide range of contracts, many relate to the eHealth / ICT infrastructure, services or systems used throughout the NHS in Scotland. Last year we focussed on these contracts and recommended that NHS NSS documented its overall approach to ICT contract procurement and management. We also recommended last year that the organisation reduced its reliance on the "corporate memory" residing in key individuals, through knowledge transfer and succession planning.

**120.** There has been limited progress against our 2017/18 recommendation. The IT SBU (now Digital and Security SBU) is going through a major organisational change, with ambitious plans for future service provision. This change will affect the structure and focus of the SBU: there is currently consultation on the senior management structure for the SBU; further structural changes will follow. Internal Audit's recent "IT People and Talent Management" report included a number of agreed actions related to workforce and succession planning. We will monitor progress on these actions, which should address some of our 2017/18 recommendation.

**121.** The national procurement team is working with the Digital and Security SBU to draw up a full register of contracts and expiry dates, to assist with forward planning for contract renewal or retendering. There are regular meetings to progress this work. Contract management arrangements for the ATOS national IT services contract have been documented, but work remains to be done to document other areas. At present there is still no formal documentation of the overall framework for managing ICT contracts.



### Recommendation 7 (from 2017/18)

**NHS NSS should document its overall approach to ICT contract procurement and management. The organisation should also consider knowledge transfer and succession planning in this area. Refer [Appendix 1 c/f section](#)**

#### National boards collaboration

**122.** As reported at [paragraph 104](#), the Scottish Government requested National Boards to plan collaboratively to support health and social care delivery with high quality sustainable services. The boards are also required to make £15 million savings on a recurring basis, a target which has not been fully achieved for 2018/19, although NHS NSS contributed £6 million towards this.

**123.** In respect of the £15 million savings for 2019/20, NHS NSS's allocation has been reduced to its pro-rata share as with five other National Boards who have consistently contributed. This leaves a gap of around £3 million for next year plus the £2.7 million shortfall from 2018/19 to be found which will be extremely challenging for the boards.

**124.** The Scottish Government agreed to a proposal that the outstanding balance be carried forward to 2019/20, with the caveat that all surpluses reported by boards who have not contributed their pro-rata share will be used in the first instance to meet the national boards collaboration shortfall in 2018/19.

**125.** The National Boards have developed workstreams to consider how collaborative working can transform service delivery and deliver savings. Progress on these workstreams is quite slow as boards are more focussed on making savings within individual boards rather than collaborating or transforming services. Boards are finding it increasingly difficult to deliver savings and new approaches are needed to deliver change across the national boards. Strong strategic leadership is needed to work across organisational boundaries and drive this change.



### Recommendation 5

**The board should work with other national boards to progress the collaborative workstreams and deliver the required change to service provision. Refer [Appendix 1](#)**

#### Preparation for Public Health Scotland

**126.** The creation of a new Scottish public health body, Public Health Scotland, has significant implications for NHS NSS, as services (primarily from the Public Health and Intelligence SBU) are expected to transfer to the new body. NHS NSS established the "Enabling the public health body" programme to apply programme management methodology to managing the transition.

**127.** The programme board continues to undertake a range of staff engagement, working with Health Scotland to share communications and undertake joint staff engagement exercises and engagement with the trade unions. The programme board provides regular progress updates to staff via the intranet and to the NHS NSS Board.

**128.** The Public Health Reform team at the Scottish Government established several commissions to help shape the structure of the public health body and the

programme board was actively involved in responding to the commissions. These commissions informed the draft Target Operating Model for Public Health Scotland

**129.** A delay is anticipated in the vesting day for Public Health Scotland, from 1st December 2019 to April 2020. This is due to a number of issues including delays in the commencement of public consultation regarding the legislative changes to create the body, all of which are outwith NHS NSS's control. The delay could lead to additional costs for NHS NSS: over £0.6 million has been requested from the Scottish Government for costs for 2019/20, with no guarantee this will be met. Continued uncertainty could also affect staff morale at NHS NSS.

**130.** NHS NSS is expected to provide shared corporate services (IT, finance & legal services, HR, procurement and facilities management) to Public Health Scotland. This will provide an opportunity to demonstrate the value of its shared services offering to other boards.

**131.** We concluded that overall NHS NSS is preparing well for the transfer of services and people to Public Health Scotland, but that uncertainties remain which are outwith the board's control.

### **National performance audit reports**

**132.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 3](#).

**133.** The board has arrangements in place for considering and reviewing national reports, including any local implications for NHS NSS. The NHS in Scotland 2018 report was highlighted in the Chair's Update at the November 2018 board meeting.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Preparation of unaudited accounts</b></p> <p>The NHS accounts preparation and audit period creates intense workload pressures. Finance staff worked hard to prepare the accounts and support the audit team, but there were some incomplete areas in the accounts submitted for audit, with subsequent adjustments required.</p> <p><b>Risk</b> - The board may not submit accounts of the required quality, potentially resulting in extra audit work and additional audit fees being charged.</p>	<p>NHS NSS should progress plans to ease workload pressures on Finance staff during the year end accounts preparation period, including automation of some processes.</p> <p><a href="#">Paragraph 19</a></p>	<p>NSS Finance have arranged a lessons learned workshop to review the annual accounts process and timetable in detail.</p> <p>As part of the finance transformation programme underway, we are addressing resilience across our key activities. We are also maximising the use of technology to make our processes more efficient.</p> <p>Interim Associate Director of Finance</p> <p>Lessons Learned workshop July 2019</p> <p>Finance Transformation March 2020</p>
2	<p><b>Trade union facility time disclosure</b></p> <p>The trade union facility time disclosure in the annual report and accounts includes an estimate of some facility time, as the required data, including actual facility time, was not obtained and collated in time for publication in the annual report and accounts.</p> <p><b>Risk</b> - The board does not comply with the legislative requirements of the Trade Union (Facility Time Publication Requirements) Regulations 2017.</p>	<p>NHS NSS should put arrangements in place to collect the required data at regular intervals and collate this centrally. This will allow time for data to be checked and ensure that NHS NSS is able to publish robust, complete data. Trade union representatives should be informed that this disclosure is a legal requirement and that returns are required to fully comply with guidance.</p> <p><a href="#">Exhibit 3</a></p>	<p>We will publish the data in line with the legislative requirement on our website at 31 July 2019. NSS will collect the information from trade union representatives on a quarterly basis. The process to be followed will be agreed in partnership.</p> <p>Interim Associate Director of Finance</p> <p>August 2019</p>
3	<p><b>National Fraud Initiative</b></p> <p>The board is making good progress in its NFI investigations, but the results of offline work have not yet been fully recorded on the secure NFI website.</p>	<p>NHS NSS should record its NFI investigations on the secure NFI website to ensure that the results are captured for the national reporting of outcomes.</p> <p><a href="#">Paragraph 53</a></p>	<p>All completed investigation results will be recorded on the NFI website by the end of June.</p> <p>Interim Associate Director of Finance</p> <p>June 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>Risk</b> – If the board’s NFI outcomes are not recorded on the NFI site, they will not be included in NFI reporting and the board may not be seen as fully engaging with NFI.</p>		
4	<p><b>Performance report</b></p> <p>There is scope for NHS NSS to develop the narrative of the performance report in its annual report and accounts to be a more accessible account of overall performance in the year, in a style more consistent with other corporate publications. The content of the report is prescribed in the NHS accounts manual (and NHS NSS discloses the requires information) but the board can choose how to present this content.</p> <p><b>Risk</b> – the board is not providing a clear and accessible account of its annual performance.</p>	<p>The board should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications.</p> <p><a href="#">Paragraph 101</a></p>	<p>As above in the response to recommendation 1.</p> <p>This will form part of the review of the 1819 annual accounts process. Finance will work closely with our colleagues in Strategy, Performance and Service Transformation to ensure the performance report in the accounts reflects the style of other corporate publications going forward.</p> <p>Interim Associate Director of Finance July 2019</p>
5	<p><b>National boards collaboration</b></p> <p>Progress is slow on collaboration between national boards to transform services and deliver savings.</p> <p><b>Risk</b> – If collaboration between national boards does not develop, then the expected support to NHS Scotland, as set out in the Health and Social Care Delivery Plan, will not be delivered.</p>	<p>The board should work with other national boards to progress the collaborative workstreams and deliver the required change to service provision.</p> <p><a href="#">Paragraph 125</a></p>	<p>NSS continue to promote the collaboration agenda across all agreed workstreams.</p> <p>The scope for a Target Operating Model (ToM) for Finance has been agreed by all National Board Directors of Finance. The NSS finance transformation is aligned to the National Boards Finance ToM and is progressing at pace. We continue to work closely with our colleagues across the National Boards, sharing our progress to date.</p> <p>Director of Finance March 2020</p>

### Follow up of prior year recommendations

1	<p><b>Training for finance staff</b></p> <p>We identified a number of errors in capital additions testing (e.g. capitalisation of recoverable VAT, maintenance and an instance where goods</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>All finance staff were reminded of capital accounting guidance at the quarterly finance meeting held on 20th June 2018.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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><b>Risk</b></p> <p>The financial statements may contain significant errors and misrepresent the financial position of the board.</p>		<p>Capitalisation of expenditure in SBUs is now checked on a quarterly basis to ensure it meets capital accounting requirements.</p> <p>No errors were identified in 2018/19 audit testing of capital additions.</p> <p>No further action required: <b>Closed</b></p>
2	<p><b>Disclosure errors in unaudited accounts</b></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><b>Risk</b></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>There were fewer disclosure errors in the unaudited accounts this year, but the accounting entries and disclosures for the Jack Copland Centre NPD project were not included in the accounts submitted for audit. A further misclassification error was identified by finance shortly after the accounts were submitted (see Exhibit 3).</p> <p>See 2018/19 action plan no. 1 above.</p>
3	<p><b>Funds managed on behalf of NHS Scotland</b></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><b>Risk</b></p> <p>If this board does not demonstrate that it has delivered on its commitment to improve, then confidence in its</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>The board has made good progress in implementing its planned eHealth improvement actions. See paragraphs 96-97. These actions apply not only to eHealth but to all funds managed on behalf of NHS Scotland. It is important that the board retains its focus on the governance of funds managed on behalf of NHS Scotland, as these improved arrangements are still bedding in across the organisation.</p> <p>We will continue to monitor how these improvements are embedded.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	governance of public funds may be diminished.		
4	<p><b>Efficiency savings</b></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><b>Risk</b></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>NHS NSS achieved (and exceeded) its planned savings target in 2018/19.</p> <p>The board's 5 year financial plan predicts a savings gap for 2022/23 and 2023/24, which will need to be addressed.</p> <p><b>Revised action:</b></p> <p>The forecast savings gap will be addressed through the NSS Service Sustainability plan which has been agreed by the NSS Board. To support this initiative NSS have established 3 workstreams including financial management led by the Director of Finance. The Board will receive progress reports from all workstreams.</p> <p>Director of Finance March 2020</p>
5	<p><b>External PSIAS review of internal audit required for compliance</b></p> <p>The board's internal auditor has not yet had an external review of compliance with the Public Sector Internal Audit Standards. This review is required every 5 years.</p> <p><b>Risk</b></p> <p>There is a risk that internal audit does not comply with the standards.</p>	<p>The board should arrange an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards and consider including this requirement explicitly in the future procurement of internal audit services.</p>	<p>We continue to recommend that NHS NSS arranges an external review of the internal audit service's compliance with PSIAS.</p> <p><b>Revised action:</b></p> <p>NSS will formally write to KPMG to seek confirmation of their compliance with PSIAS</p> <p>Director of Strategy, Performance and Service Transformation July 2019</p>
6	<p><b>Compliance with General Data Protection Regulations</b></p> <p>NHS NSS has identified some gaps in progress on meeting all the requirements of GDPR.</p> <p><b>Risk</b></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>The board is addressing the gaps identified and the Information Governance Committee receives updates on GDPR compliance. The May 2019 update identified key risk areas as (1) the rights imposed by the new law which raise particular IT challenges and (2) ensuring NHS NSS has a framework and evidence that demonstrates it meets its GDPR obligations with the</p>



**No.** **Issue/risk**

**Recommendation**

**Agreed management action/timing**

			<p>principles of data protection by design and default adequately embedded throughout the organisation and its processes.</p> <p>We will continue to monitor the board's reporting on GDPR compliance.</p>
<p><b>7</b></p>	<p><b>ICT contract management</b></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><b>Risk</b></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 organisation should also consider knowledge transfer and succession planning in this area.</p>	<p>Limited progress has been made against this recommendation.</p> <p>The Digital and Security (IT) SBU is undergoing significant organisational change and SBU activity has been focussed on this.</p> <p>The National Procurement team and IT are working together to draw up a register of all contracts and their expiry dates.</p> <p>IT has documented its contract management arrangements for the ATOS national IT services contract and this is being adopted into other contract arrangements.</p> <p>Agreed actions on succession planning were included in Internal Audit's "IT People &amp; Talent Management" report. Progress against these actions is reported to the ARC.</p> <p><b>Revised action:</b></p> <p>IT will roll out agreed and documented contract management processes to all service contracts.</p> <p>Director of Digital and Security September 2019</p> <p>A Digital Portfolio Management function providing required governance around contract management performance will be established.</p> <p>Director of Digital and Security December 2019</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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></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 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 no errors.</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>We concluded that there was no indication of management override of controls.</p>
<p><b>2 Risk of fraud</b></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 ISA 240, 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 36-41). This work did not identify any areas of concern.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</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 certificates/ provision assumptions.</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</p>

Audit risk	Assurance procedure	Results and conclusions
	Review of accounting policies to ensure they are reasonable and appropriately applied.	support estimates and judgements made.
<p><b>4 Financial statements preparation</b></p> <p>The timetable proposed for the preparation and audit of the financial statements is very challenging. In 2017/18 pressure on timetables meant ARC's opportunity for scrutiny of the accounts and associated audit reporting was compressed. The June ARC meeting date has been set for a week earlier than last year.</p>	<p>We will supply agreed working papers checklist to finance staff in advance of the financial statements audit to clarify our requirements</p> <p>We will review the proposed automation of aspects of accounts preparation (drawing data directly from source systems)</p> <p>We will keep progress against the proposed timescale under review and highlight any delays as they arise.</p>	<p>The unaudited annual report and accounts were submitted in line with our agreed audit timetable, with some sections still to be completed. Finance staff worked hard with audit staff to meet final deadlines for the accounts and audit report. Finance propose some changes for next year to ease workload pressures, including automation of some processes. See Appendix 1, Action Plan no.1.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>5 Financial sustainability</b></p> <p>In addition to delivering savings of 5% against its own 2018/19 baseline budget, NHS National Services Scotland must contribute to an additional £15 million savings to be made by the national boards. These savings are intended to be made through collaboration and transformation, but there is limited evidence to date of successful collaboration or service transformation. Non-recurring savings are now being used to deliver savings, which is not a sustainable approach.</p>	<p>Review of financial monitoring reports on progress in achieving savings</p> <p>Review of national boards' collaboration on developing new/transformational ways of working. We will work with the other auditors of national boards to scope this work.</p>	<p>NHS NSS achieved its £5.5 million share of the national boards' £15 million savings target. The board agreed to contribute a further £0.5 million when additional savings were made.</p> <p>As reported at paragraphs 122 to 125, savings are being made by boards individually rather than by collaboration or service transformation.</p>
<p><b>6 Financial management and governance of funds managed on behalf of the NHS</b></p> <p>We reported in our 2017/18 Annual Audit Report that NHS National Services Scotland's action plan in relation to eHealth funds set out improvements to its scrutiny of funds managed on behalf of NHS Scotland, including improved financial reporting to the Finance, Procurement and Performance Committee and Board.</p> <p>These actions have had several months to bed down and the Board will need to demonstrate</p>	<p>Review of implementation of governance and financial management improvement actions.</p>	<p>The board has made good progress in implementing the agreed improvement actions, but continued focus is required to ensure that the arrangements are fully embedded across the organisation. See paragraphs 96 to 97.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>that it has delivered these improvements.</p>		
<p><b>7 ICT contract management</b></p> <p>The Board is responsible for signing national contracts on behalf of NHS Scotland, including major ICT contracts expected to be approved and started during 2018/19. We reported in our 2017/18 Annual Audit Report that NHS National Services Scotland did not formally document its overall framework for ICT contract procurement and management, placing reliance on “corporate memory”. This approach creates the risk that procurement knowledge may be lost, and benefits of previous contract procurement may not be fully realised.</p> <p>Given the collapse of several large public sector suppliers, particularly in ICT, there is a risk that the Board’s operations will be adversely impacted if there is a failure in any of the key suppliers.</p>	<p>Continued review of NHS NSS’s ICT contract management arrangements, building on our 2017/18 audit work and following up last year’s recommendations. We will coordinate with internal audit to avoid duplication in this area.</p> <p>Review of risks and mitigating business continuity arrangements around systems supported by key suppliers e.g. ATOS</p> <p>Ongoing monitoring of financial position in respect of suppliers under framework agreements.</p> <p>Review NHS NSS’s arrangements for ongoing financial, performance and failure risk assessment of significant suppliers.</p>	<p>Limited progress has been made in documenting the organisation’s overall approach to ICT contract management. See paragraphs 118 to 121.</p> <p>The Digital and Security SBU has agreed a number of actions in response to Internal Audit’s “IT People and Talent Management” report. These actions, including a consistent approach to succession planning, should address the risks related to the extent of reliance on corporate memory.</p> <p>We concluded from our review that NHS NSS’s arrangements for managing the risk of key supplier failure are appropriate.</p>
<p><b>8 UK withdrawal from the EU</b></p> <p>Due to uncertainties around the UK’s withdrawal from the European Union (EU) in March 2019 and its possible effect on trade and custom rules; there is a risk that NHS NSS’s supply chains will be impacted and this will have an adverse effect on the procurement of vital supplier from EU countries affecting NHS NSS’s ability to deliver vital services.</p> <p>Additional inventories may be stockpiled to avoid any delays in the supply chain. Inventories is already a material balance in the financial statements; stockpiling could mean that normal methods of procuring and storing inventories will be stretched.</p>	<p>Assessment of the reasonableness of NHS NSS’s preparation for the impact of the UK’s withdrawal from the EU.</p> <p>Review of accounting for stockpiling including treatment of balances.</p> <p>Review of stock check arrangements, loss prevention measures and security over stock.</p>	<p>We concluded that accounting and stock control measures for additional inventories held at the year end in anticipation of the UK’s withdrawal from the EU was appropriate.</p> <p>We concluded that NHS NSS’s preparations for the impact of the UK’s withdrawal from the EU were appropriate, but that risks remain.</p>
<p><b>9 Public Health Scotland</b></p> <p>The Scottish Government’s December 2016 “Health and Social Care Delivery Plan” announced the creation, by</p>	<p>Continued review of the Board’s preparations for the transfer of services and people to the new body, building on our 2017/18 audit work.</p>	<p>Following delays in making the necessary legislative changes, the timescale for establishing the new public health body has also</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2019, of a new national public health body. The Scottish Government confirmed that some staff and services from NHS National Services Scotland would transfer to the new body. NHS NSS needs to manage this transition and its impact on services and staff who will transfer to the new body, and those who do not. The new body is now expected to be established in December 2019.</p>		<p>been delayed by an estimated three months, to March 2020.</p> <p>We concluded that overall, NHS NSS's preparations for the transfer of staff and services were satisfactory, but that risks exist in relation to funding of additional costs incurred and impact on staff morale of the delay in transition, both of which are outwith NHS NSS's control.</p>

# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### NHS relevant reports

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

# NHS National Services Scotland

## 2018/19 Annual Audit Report

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