

NHS National Services Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
August 2021

Contents

Key messages	3
Introduction	4
1. Audit of 2020/21 annual report and accounts	6
2. Financial management	12
3. Financial sustainability	17
4. Governance and transparency	21
5. Value for money	25
Appendix 1. Action plan 2020/21	33
Appendix 2. Significant audit risks	38
Appendix 3. Summary of 2020/21 national performance reports	42

Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Material adjustments have been made to the annual accounts as a result of the audit process. The most significant changes relate to the accounting for PPE and test kits which was subject to late resolution and resulted in the recognition of £120.6 million additional income from health boards and an additional £71.8 million expenditure and income for test kits.

Financial management and sustainability

- 3 Budget setting and monitoring processes are appropriate and were adapted to reflect the key role NHS NSS had in responding to the Covid-19 pandemic.
- 4 Revenue funding for NHS NSS significantly increased in 2020/21 due to the response to the Covid-19 pandemic. In recent years NHS NSS has had an increasing reliance on non-recurring funding as its baseline allocation hasn't been updated to capture additional responsibilities.
- 5 NHS NSS has a three-year Financial Plan in place but progress in transforming services to address future deficits has been constrained due to the focus on the pandemic response.

Governance, transparency and value for money

- 6 NHS NSS has appropriate arrangements in place to support good governance and accountability including those associated with the award of PPE contracts during the pandemic.
- 7 Openness and transparency could be improved by providing online access to committee agendas and minutes.
- 8 NHS NSS worked well with partners from early in the pandemic to source suppliers and make the PPE supply chain more resilient. It also played a pivotal role, alongside partners, in delivering the contact tracing and vaccination programmes.
- 9 There was some variation in the procurement arrangements applied, however we acknowledge the climate that NHS NSS was operating in to respond to the pandemic.

Introduction

1. This report summarises the findings from our 2020/21 audit of NHS National Services Scotland (NHS NSS). The scope of our audit was set out in our Annual Audit Plan issued to management and the Audit and Risk Committee in May 2021. This report comprises the findings from our audit of the body's annual report and accounts and consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of NHS NSS's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS NSS's key financial systems
- consideration of the four audit dimensions.

3. The global coronavirus pandemic has had a considerable impact on NHS NSS during 2020/21. The workload of key services, particularly national procurement and Digital and Security, has significantly increased. NHS NSS's national procurement role has been essential in securing supplies of Personal Protective Equipment (PPE) and in setting up the NHS Louisa Jordan field hospital and Covid-19 testing labs. Digital and Security has enabled the roll-out of technology to support home working across the NHS in Scotland and supports the digital platform for contact tracing and vaccinations. Some services were suspended to create capacity to deliver these activities. Risks related to the pandemic were included in our Annual Audit Plan, and we report on how we have addressed them in [Appendix 2](#).

Adding value through the audit

4. We add value to NHS NSS by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) 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. 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 an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
- 7.** NHS NSS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 9.** This report raises matters from our audit. 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.
- 10.** 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 actions from last year and the progress that has been made.

Auditor Independence

- 11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** 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 2020/21 audit fee of £191,550, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts are unmodified.

The Covid-19 pandemic and ongoing remote working had an impact on the audit process.

Material adjustments have been made to the annual accounts as a result of the audit process. The most significant changes relate to the accounting for PPE and test kits which was subject to late resolution by the Scottish Government and resulted in the recognition of £120.6 million additional income from health boards and an additional £71.8 million expenditure and income for test kits.

Our audit opinions on the annual report and accounts are unmodified

14. The board approved the annual report and accounts for the year ended 31 March 2021 on 30 August 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and 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 Covid-19 pandemic continued to have an impact on the audit process and evidence obtained

15. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were affected by the Covid-19 pandemic. This required us to revise our audit approach and undertake some alternative procedures as detailed below:

- we were unable to physically attend a stock count at the National Distribution Centre due to lockdown restrictions and had to observe the stock count virtually using FaceTime on a mobile device
- third party confirmation was not received from the Royal Bank of Scotland for one year end bank account balance (£0.027 million) however this balance was below our clearly trivial threshold and we agreed it to a bank statement supplied by NHS NSS.

16. NHS NSS identified additional resource to provide the supporting documentation for our sample testing. However, for some National Services Division journals, and a number of income and expenditure transactions, considerable audit time was required to establish a complete audit trail of evidence back to source documentation. Providing a redacted audit trail has proved challenging for some Strategic Business Units.

Recommendation 1

As NHS NSS is a health board which provides some clinical services there should be an agreed redaction protocol to ensure accountability through a complete audit trail while retaining confidentiality.

The sign-off of the annual report and accounts was delayed but is in accordance with the extended government deadline

17. As a result of the continuing impact of Covid-19 the Scottish Government extended the deadline for the submission of health board audited annual report and accounts from 30 June 2021 to 30 September 2021. This mirrored the 2019/20 arrangements.

18. The accounts preparation and audit process are always resource intensive for finance staff and the Covid-19 pandemic created additional pressures. This included processing significantly increased expenditure relating to NHSScotland's pandemic response. We agreed an audit timetable with NHS NSS that allowed a longer period of accounts preparation and management review, and a longer audit period. The unaudited annual report and accounts were received broadly in line with our agreed audit timetable on 3 June 2021 and were of a good standard. Submission of the audited annual report and accounts on 31 August 2021 is in accordance with the extended Scottish Government deadline.

Overall materiality was revised on receipt of the unaudited annual report and accounts to £8.6 million

19. Our initial assessment of materiality (£9.7 million) was carried out during the planning phase of the audit. This was reviewed and revised to £8.6 million on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). The revised materiality levels did not require a change in our audit approach as it did not change the assessment of material account areas.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£8.6 million
Performance materiality	£4.3 million
Reporting threshold	£100,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

21. 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. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Allocation of the cost of PPE and testing kits to other public sector bodies</p> <p>Throughout the Covid-19 pandemic NHS NSS was responsible for obtaining and issuing PPE and testing kits to other public sector bodies across Scotland.</p> <p>Initially the other public sector bodies were not including the 'cost' of these items as they had been provided free of charge. Late technical guidance confirmed that this view was incorrect, as these items were used by staff in delivering</p>	<p>The financial statements have been adjusted to recognise additional income from health boards of £120.6 million with an equal reduction in the funding received from the Scottish Government.</p> <p>Additional narrative has been included in the annual report in relation to the provision of PPE and testing kits to other public sector bodies as there is no impact on the financial statements of NHS NSS of these allocations.</p>

Issue	Resolution
<p>services, and the costs should be reflected in the bodies' accounts.</p> <p>NHS NSS had maintained records of the allocations and provided bodies with an analysis of the overall cost of items supplied. There were elements of estimation within the allocation which we concluded were reasonable.</p> <p>Revised funding allocation letters have been issued to address the financial impact.</p>	<p>Audit work confirmed the allocation and valuation of these items.</p>
<p>2. Recognition of testing kits provided by UK Government</p> <p>As part of the above allocation process NHS NSS identified testing kits provided by the UK Government and allocated for use by the general public.</p> <p>The accounting treatment following the same principles as those outlined above. The donated testing kits represent costs associated with the response to the Covid-19 pandemic and therefore must be recognised in the accounts of NHS NSS.</p>	<p>The financial statements have been adjusted by £71.8 million to recognise the additional cost of providing the testing kits to the general public and the income associated with their donation from UK Government.</p> <p>Audit work confirmed the allocation and valuation of these items.</p>
<p>3. Overstatement of payables and receivables due to the inclusion of pharmacy rebates</p> <p>Audit testing identified that part of the reason for the significant increase in trade receivables in the Statement of Financial Position was the inclusion of a ledger code excluded in the prior year.</p> <p>The code relates to pharmacy rebates which is an area of passthrough income / expenditure that should not be included in the financial statements of NHS NSS. As a result, trade receivables was overstated by £22.8 million.</p> <p>Further audit work confirmed that a trade payables balance of £23.6 million related to pharmacy rebates was also included within the financial statements resulting in an overstatement of this balance.</p>	<p>The financial statements have been adjusted to remove the pharmacy rebates from the Statement of Financial Position.</p> <p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity are excluded from the NHS NSS financial statements.</p> <p>Recommendation 2</p> <p>(refer Appendix 1, action plan)</p>

Issue	Resolution
<p>4. Classification and valuation of provisions</p> <p>The unaudited financial statements included a new provision for backlog maintenance of £22.5 million payable within one year. Audit work confirmed that this balance will be payable over the next five years requiring a classification adjustment of £20 million between current and non-current provisions.</p> <p>In addition, as the provision will span a five-year period, there is a requirement to recognise the impact this will have on future costs. Audit work has confirmed that this increases the total value of the provision by £0.9 million.</p>	<p>The financial statements have been adjusted to recognise the likely timing and cost of the backlog maintenance provision.</p> <p>The provision is based on estimated costs calculated by applying risk factors and multipliers to surveyors' reports of maintenance work required. We have reviewed the calculation, a sample of survey reports and the risk factor guidance and discussed the process with Estates officers. We are satisfied that the estimation is reasonable, however the documentation of the process could be improved.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>5. Extent of changes to the remuneration report</p> <p>The unaudited remuneration report contained the key disclosure requirements from the Government Financial Reporting Manual (FReM). Audit testing identified a number of required amendments due to inaccuracies when considering the underlying documentation. Although none of the required amendments were significant the volume indicates the need for arrangements to be strengthened.</p>	<p>The remuneration report has been updated to reflect the audit findings.</p> <p>Recommendation 3 (refer Appendix 1, action plan)</p>

Source: Audit Scotland

Material adjustments have been made to the annual accounts as a result of the audit process. Our audit approach has been adapted to obtain the required assurances

22. As detailed in [Exhibit 2](#) a number of adjustments were required to the unaudited financial statements. The most significant adjustments related to the late technical issue on the accounting for PPE and testing kits which resulted in the identification of income from health boards for PPE of £120.6 million and the recognition of additional £71.8 million expenditure and income for testing kits.

23. We have reviewed the nature and causes of each of the areas identified in [Exhibit 2](#) and concluded on the impact for our audit approach. Many of the misstatements were isolated in nature, however where necessary additional audit procedures have been performed to ensure the required audit assurance was obtained.

24. Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £131.6 million and increased net assets in the Statement of Financial Position by £11.8 million.

25. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Progress was made on prior year recommendations

26. NHS NSS has made progress in implementing our prior year audit recommendations as set out in [Appendix 1](#). NHS NSS has continued to improve the standard of the unaudited annual report and accounts and we will continue to work with them in this regard.

2. Financial management

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

Main judgements

NHS NSS operated within its revised Revenue Resource Limit of £850 million.

Budget setting and monitoring processes are appropriate and were adapted to reflect the key role NHS NSS had in responding to the Covid-19 pandemic.

Financial systems of internal control are operating effectively and there are appropriate arrangements in place for the prevention and detection of fraud and error.

The service auditor provided a qualified opinion on the systems of control for primary care payments and work is continuing to address the issues identified.

NHS NSS operated within its revised Revenue Resource Limit of £850 million

27. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. In response to the pandemic throughout 2020/21, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic. [Exhibit 3](#) shows that the Board operated within its limits during 2020/21.

Exhibit 3

Performance against resource limits in 2020/21

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend / (Overspend) £m
Core revenue resource limit	802.838	802.096	0.742
Non-core revenue resource limit	46.887	46.878	0.009
Total revenue resource limit	849.725	848.974	0.751

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend / (Overspend) £m
Core capital resource limit	29.750	29.721	29
Non-core capital resource limit	0	0	0
Total capital resource limit	29.750	29.721	29
Cash requirement	844.092	844.092	0

Source: NHS NSS Annual Report and Accounts 2020/21

Budget processes are appropriate, but the key role NHS NSS had in responding to the Covid-19 pandemic had a significant financial impact

28. In March 2020 the NHS NSS board provisionally approved the Annual Operating Plan which included an overall gross expenditure budget for 2020/21 of £865.8 million and a core revenue resource limit of £505.9 million. As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 response activity. These estimates were kept under review and reported in published plans to the Scottish Government on a regular basis.

29. Additional revenue funding in 2020/21 from the Scottish Government to NHS NSS for Covid-19 totalled £297.9 million. The major areas of additional expenditure at NHS NSS included:

- £80.8 million for the purchase of PPE (in addition to the £120.6 million income received from health boards)
- £59.7 million for the implementation of Covid-19 screening and testing arrangements
- £51.2 million on establishing the NHS Louisa Jordan field hospital which has now been decommissioned
- £27.1 million to develop and implement the contact tracing system
- £16.1 million on the Covid-19 vaccination programme.

30. NHS NSS received a total capital allocation for 2020/21 of £29.7 million. This included £18.8 million to cover the capital costs associated with the implementation of Covid-19 screening and testing. Due to the complexity of the accounting arrangements for areas of Covid-19 related expenditure, such as the establishment of the NHS Louisa Jordan field hospital, there were significant fluctuations during the year. Following discussions with audit it was agreed that all associated expenditure for the NHS Louisa Jordan field hospital, some £51.2 million, should be treated as revenue.

£18.6 million of efficiency savings were achieved exceeding the initial budget

31. During 2020/21 total cash releasing efficiency savings of £18.6 million were achieved (£5.7 million by NHS NSS and £12.9 million by National Services Division). This exceeds the budgeted requirement of £15.6 million (5 per cent of baseline budget); however, many Strategic Business Units were unable to deliver these on a recurring basis. The delivery of savings on a non-recurring basis presents an ongoing financial challenge for future years. We recognise that NHS NSS has a good track record of achieving recurring savings and will refocus on this in future financial years.

NHS NSS adequately managed the risks associated with advance payments

32. To secure contracts at the start of the Covid-19 pandemic, when supplies were in greatest demand, NHS NSS had to make advance payments to a number of suppliers. These advance payments were required to secure manufacturing slots or airfreight to ensure the supply of PPE. They were also used to help companies, such as Alpha Solway, move their manufacturing to the UK.

33. Up to March 2021, NHS NSS had paid £135 million in advance payments and by July 2021 there was £6.6 million of orders outstanding. NHS NSS monitors the goods received against the outstanding payments through its purchase order and warehouse management systems. Progress was reported to the national procurement governance and programme board and, as the risk has now reduced, is monitored by the national procurement KPI group.

Financial systems of internal control are operating effectively

34. 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 systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

35. Our management report was issued to the Audit and Risk Committee in July 2021 and included our findings from the review of systems of internal controls. We concluded that appropriate and effective controls were in place across the key financial systems. A small number of control weaknesses were identified and we adjusted our audit approach to ensure sufficient assurance was obtained.

The service auditor provided a qualified opinion on the systems of control for primary care payments and work is continuing to address the issues identified

36. The NHS in Scotland procures a number of service audits each year for shared systems. NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance report in relation to the NSI eFinancials was unqualified.

37. NHS NSS procures service audits covering primary care payments (Practitioner and Counter Fraud Services), the national IT services contract and the payroll services provided by NHS NSS to other boards. The conclusion of the service auditor assurance report for each was:

- primary care payments – qualified
- national IT services – unqualified, with an emphasis of matter on the restriction of access to authorised individuals
- payroll services - unqualified.

38. The NHS NSS service auditor’s assurance report for primary care payments was qualified in 2020/21. The qualified opinion relates to the description of the control system, and the design and operating effectiveness of controls in relation to the stated control objectives. At the request of NHS NSS management internal audit completed additional testing focused on the processes and controls over practitioner payments made as a result of the Scottish Government’s measures to support practitioners during the Covid-19 pandemic. No significant issues were identified from this work.

39. We reviewed the work detailed above and concluded that it was performed satisfactorily, and that assurance could be placed on it. We issued an assurance letter confirming this to other health board external auditors.

40. In response to the remaining issues identified from the service audit of primary care payments NHS NSS has commissioned an end-to-end review of the process. This will support clearer, more accurate articulation of the control objectives for future service audits and also identify potential process improvements and areas where automation could be applied.

Internal audit concluded that the overall framework of governance, risk management and control provided significant assurance

41. NHS National Services Scotland’s internal audit function is carried out by KPMG LLP. Internal audit concluded their 2020/21 audit work and presented their Annual Audit Report to the June 2021 Audit and Risk Committee. This included the annual internal audit opinion that “Significant (with minor improvements) assurance can be given on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

42. We reviewed NHS NSS's internal audit function to determine the extent to which we could use their work in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). We concluded that we could rely on the work of internal audit where this would reduce our own audit testing or avoid duplication. We had identified the financial controls work on procurement, which focused on PPE contracts, as an area of reliance for 2020/21. This work was reported in June 2021 and concluded with an assurance rating of “significant assurance with minor improvements”. More details of the findings from this review are detailed at [paragraph 66](#).

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

43. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS NSS is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

44. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions (which was updated and approved by the Board in March 2021) and Fraud Management Policy. NHS NSS was also involved in the establishment of the 'Once for Scotland' Whistleblowing Policy that went live on 1 April 2021. This included completing a self-assessment checklist to evaluate compliance with the new requirements. Our audit work has confirmed that there are established procedures in place for preventing and detecting any breaches of these standards including any instances of corruption.

45. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS NSS has started work to investigate the identified matches for the 2020/21 exercise.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

Revenue funding for NHS NSS significantly increased in 2020/21 due to the response to the Covid-19 pandemic. In recent years NHS NSS has had an increasing reliance on non-recurring funding as its baseline allocation hasn't been updated to capture additional responsibilities.

NHS NSS has a three-year Financial Plan in place but progress in transforming services to address future deficits has been constrained due to the focus on the pandemic response.

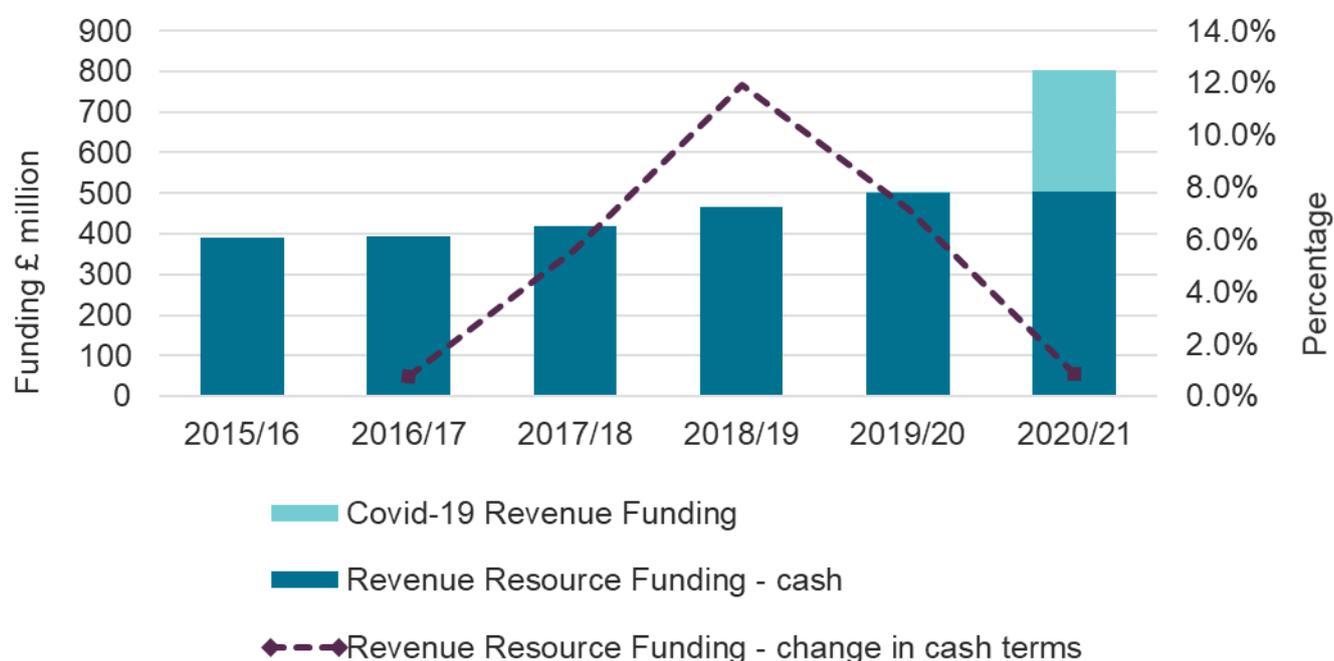
Covid-19 significantly increased the total revenue funding for NHS NSS in 2020/21 but future funding remains uncertain

46. Total revenue funding to NHS NSS in 2020/21 from the Scottish Government was £504.9 million, less than one per cent increase in cash terms compared to 2019/20 allocation. As detailed in [paragraph 29](#) additional revenue funding of £297.9 million was provided in 2020/21 due to the critical role that NHS NSS played in the response to the Covid-19 pandemic.

47. When considering the revenue funding position we assessed the overall movement between 2015/16 and 2020/21 as detailed in [Exhibit 4](#). This shows that NHS NSS has received annual increases in cash terms, however this has been constrained in the last two years. For 2020/21 it is clear to see that the funding allocation for NHS NSS reflected the need to move away from business as usual activities to a short term focus on responding to the pandemic.

Exhibit 4

Movement in cash terms of revenue resource funding to NHS NSS



Source: NHS NSS Financial Allocation Letters / Audit Scotland

48. For 2020/21 NHS NSS has currently received its baseline revenue allocation plus six months funding to cover Covid-19 costs. This uncertainty has led NHS NSS to pause some key development areas as it has been advised that the revenue surplus from 2020/21 (£0.750 million) may not be reinstated in 2021/22.

49. The projected 2021/22 revenue budget requirement for NHS NSS's role in the Covid-19 response is now £399 million, up from £341 million in the Annual Operating Plan, following a deep dive exercise on vaccination and test and protect costs. Programme slippage in 2020/21 due to Covid-19 also presents increased pressures putting key developments at risk.

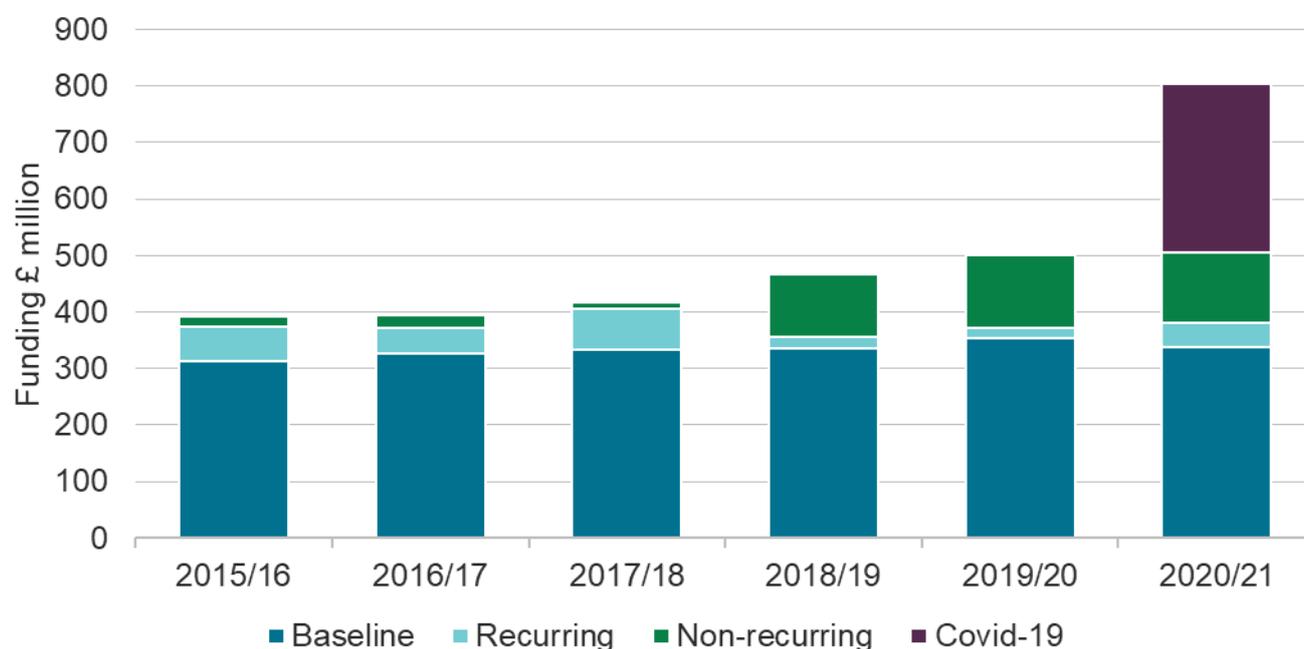
50. An analysis of revenue funding between 2015/16 and 2020/21, detailed in [Exhibit 5](#), shows that the funding model has shifted with NHS NSS now heavily reliant on the receipt of non-recurring funding to deliver services. In 2015/16 non-recurring funding represented 5.6 per cent of baseline funding, however in 2020/21 this had increased to 37 per cent. Reliance on non-recurring funding limits the ability of NHS NSS to effectively plan and resource future developments.

Recommendation 4

NHS NSS should work with the Scottish Government to agree future recurring funding which reflects its expanding role.

Exhibit 5

Split of revenue funding showing increasing reliance on non-recurring elements



Source: NHS NSS Financial Allocation Letters

NHS NSS has a Remobilisation Plan for 2021/22 to support the continued response to the pandemic and recovery across the health sector

51. The Scottish Government has requested all NHS bodies produce, and regularly revise, remobilisation plans for the restoration of business as usual services.

52. In March 2021 the NHS NSS Board approved the Remobilisation Plan 2021/22. Despite the ongoing focus of continuing to support the response to the Covid-19 pandemic, NHS NSS is also planning for how it can deliver business as usual as well as identifying new services.

53. The plan is aligned to the NHSScotland priorities for the 2021/22 financial year:

- Living with COVID-19 - continue to deliver critical Covid-19 response services throughout 2021/22
- Delivering essential services - remobilise and improve NHS NSS services for health and social care in 2021/22
- Longer term priorities - provide NHS NSS expertise and service delivery to help realise opportunities.

Medium term financial planning has been constrained by the focus on responding to the Covid-19 pandemic

54. Details of the Financial Plan 21/22 – 23/24 were presented to the Finance, Procurement and Performance Committee in February 2021. It noted that urgent action is required to assess and transform the delivery of services (focusing on reducing cost and improving productivity) to address an underlying deficit of £13.1 million to 2022/23. Underlying operating deficits are currently projected for all business units in both 2021/22 and 2022/23. Development spend is being restricted and other non-recurring measures progressed to deliver the overall break-even position projected for 2021/22. A range of change programmes will need to be delivered to achieve financial sustainability in future years.

55. We recognise that the immediate priority for NHS NSS continues to be delivering the response to the Covid-19 pandemic and the considerable pressure this places on resources. NHS NSS, however, also recognises the opportunities that it can present to support flexibility and a step change in approach to homeworking.

NHS NSS's Future Ready programme has been established to support flexibility in future working arrangements

56. A lessons learned exercise, completed by NHS NSS after wave 1 of the Covid-19 pandemic, showed that there had been a number of performance benefits from working from home. Further many critical business as usual services had coped well despite the additional pressures being faced.

57. A recent staff survey showed that the majority (92 per cent) of NHS NSS staff were keen to remain working from home on a full or part time basis. The NHS NSS Future Ready programme has been established to take this forward. It is proposed that, by taking a digital first approach, NHS NSS will enable staff, teams and its services to determine how they work, where they work and when to work, to the benefit of the organisation, customers and individual wellbeing. Principles for decision making have been agreed and the programme is now entering the implementation phase.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

NHS NSS has appropriate arrangements in place to support good governance and accountability including those associated with the award of PPE contracts during the pandemic.

Openness and transparency could be improved by providing online access to committee agendas and minutes and ensuring all Board papers are available and kept up to date.

NHS NSS has played a pivotal role, and worked well with partners, in delivering the contact tracing and vaccination programmes.

The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

58. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in NHS NSS's annual report and accounts. We also reported in last year's [annual audit report](#) on the revised governance arrangements introduced by NHS NSS.

59. NHS NSS has appropriate and effective governance arrangements in place. In making this assessment we considered the:

- structure and conduct of virtual board and committee meetings
- overall arrangements to ensure appropriate standards of conduct including compliance with the updated Standing Financial Instructions and Standing Orders
- arrangements for the prevention and detection of fraud, error, bribery and corruption, including the response to the National Fraud Initiative
- reporting of performance and whether this is fair, balanced and understandable.

NHS NSS adapted quickly to implement appropriate governance for the award of PPE contracts

60. At the start of the pandemic NHS NSS found its contract approval process was too slow to support the required response. NHS NSS entered into 342 additional unplanned procurements contracts during the early weeks of the pandemic. This was necessary to secure the PPE required by the public sector in Scotland.

61. On 28 March 2020, NHS NSS amended its standing financial instructions (SFIs) to increase the delegated approval levels. The main changes include:

- delegating authority for contract award to the Head of Strategic Sourcing and Commissioning for contracts under £1 million (£100,000 for NHS NSS contracts)
- raising the approvals thresholds for key individuals reflecting the scale of the commitments being made, including establishing specific levels for the NHS Louisa Jordan field hospital.

62. NHS NSS reported that these changes allowed purchase orders to be raised quicker but maintained strong governance around the contracting process. We found that all but one of the contract approval documents we reviewed had the correct approval however three were approved after the contract start date.

63. NHS NSS obtained pre-approval from the Scottish Government for all Covid-19 response spend which was procured in line with NHS NSS delegated approvals. Weekly reporting was introduced to ensure that the Scottish Government were kept fully informed of the Covid-19 spending incurred by NHS NSS.

64. The national procurement governance board met weekly at the height of the pandemic and fortnightly thereafter. It considered the actual and projected PPE spend and key risks such as the advanced payments. Papers were also regularly taken to the finance, procurement and performance committee and NHS NSS board. In our [PPE briefing](#), we discuss governance arrangements at a Scottish Government level that NHS NSS played a key role contributing to.

65. In 2020/21 internal audit completed a review of the financial controls in place over NHS NSS's Covid-19 procurement. This work analysed the changes to the SFIs to assess appropriateness and tested a sample of 40 Covid-19 related transactions, across 34 contracts, to ensure effective control was in place.

66. Internal audit testing confirmed that the temporary amendments to the SFIs have allowed more streamlining of the authorisation process for new contracts and have reduced the associated workload of personnel involved in approving contracts. However, the testing did identify a small number of contract approvals where the revised SFIs were not followed. Despite this the overall conclusion for the review is 'significant assurance with minor improvements'.

Openness and transparency could be improved

67. Openness and transparency is how an organisation operates and makes decisions and ensures that the public have access to understandable, relevant and timely information about board decisions and how it is using resources such as money, people and assets.

68. The NHS NSS website has recently been relaunched. In the current environment the availability of information virtually is even more important. Board meeting agendas, minutes and papers, since December 2020 are available on the website, however nothing is currently available for previous Board meetings. In addition, agendas and minutes for committees are not published. We believe providing access to a wider range of information would support improved openness and transparency.

Recommendation 5

NHS NSS should explore the opportunities provided by the relaunched website to improve the availability of information to the public.

NHS NSS has played a pivotal role in setting up and operating the contact tracing programme for Scotland

69. From early in the pandemic NHS NSS began to engage on the need for contact tracing as part of the response to the Covid-19 pandemic. NHS NSS provided support to increase testing capacity across the NHSScotland labs network including the deployment and supply of testing platforms and supplies. Three regional hubs were established alongside the delivery of testing pathways for health and social care staff across Scotland.

70. Digital and Security played a critical role in co-ordinating intelligence around test results. This included the development of a digital portal and the provision of data analysis to support the decision making by the Scottish Government and other partners.

71. The National Contact Centre was established within NHS NSS, on behalf of Public Health Scotland, to support the contact tracing function. NHS NSS has on-boarded over 1,200 new employees to deliver the tracing function. As a core part of the induction all new employees were trained in information governance, information security and confidentiality recognising the importance of ensuring they were equipped to appropriately look after the data they had access to.

NHS NSS continues to work well with partners to support the vaccination programme

72. NHS NSS is working closely with a range of partners, including the Scottish Government, all health boards and local authorities, the military and the voluntary sector to deliver the Covid-19 vaccination programme. Given the pace of implementation and breadth of involvement across the organisation NHS NSS recognises this as its single biggest undertaking.

73. The Programme Management Service has taken a lead role on the service delivery programme and demand for these services has never been greater. This has resulted in significant expansion within the service. Although this was part of the longer term planning it has had to be accelerated with the service already resourced to 2023 levels.

74. National Procurement are involved in ensuring the supply chain and logistics for the delivery of the vaccine across Scotland. This is at a time when ongoing demand remains high for PPE and testing kits as these other important elements of the pandemic response continue.

75. Digital and Security, in partnership with NHS Education for Scotland Digital and eHealth leads, are providing the digital infrastructure for the vaccination programme. This includes managing data, bookings and reporting as well as establishing the dedicated Covid-19 vaccination helpline for the public.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

Overall performance against targets was good despite 32 targets being delayed by the Covid-19 pandemic.

NHS NSS applied the emergency procurement regulations to procure PPE for Scotland in very difficult circumstances.

There was some variation in the procurement arrangements applied, however we acknowledge the climate that NHS NSS was operating in to respond to the pandemic.

NHS NSS worked well with partners from early in the pandemic to source suppliers and make the PPE supply chain more resilient.

Adequate arrangements are in place to deal with the associated risk of procurement fraud.

Digital and Security provided the infrastructure to support homeworking and developed key applications in response to the Covid-19 pandemic.

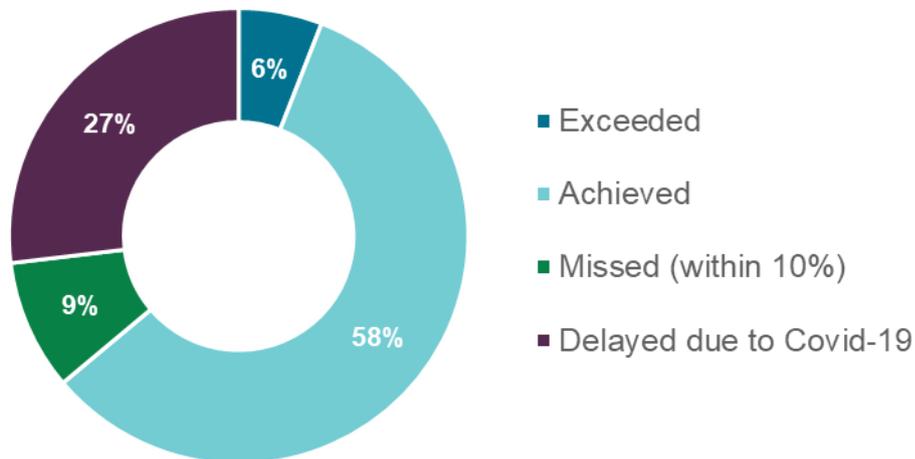
Performance against targets was good despite the impact of Covid-19 and this has been clearly reported

76. In response to the Covid-19 pandemic NHS NSS replaced the 2020/21 Annual Operational Plan with a Remobilisation Plan covering the period August 2020 to March 2021. It contained 119 targets to be achieved by the end of the financial year. This was a significant increase on the 60 targets previously set.

77. The second wave of Covid-19 in autumn 2020 impacted on the performance targets of NHS NSS as it had to reprioritise resources to support the pandemic response. In total 32 of the targets (27 per cent) were significantly affected with 11 placed on hold, 12 subject to delay, 5 experiencing resource issues and 4 unable to progress as planned due to stakeholder and partner availability. Overall performance against the targets is shown in [Exhibit 6](#).

Exhibit 6

Performance against Remobilisation Plan targets in 2020/21



Source: NHS NSS Performance Report

78. Our audit work has considered the reporting of performance and concluded that NHS NSS has been clear and transparent on the impact of Covid-19 on the outcomes achieved. Given the challenges faced by NHS NSS and the critical role it played in responding to the pandemic the overall performance reported in 2020/21 was good.

There was a successful transfer of staff to Public Health Scotland on 1 April 2020

79. On 1 April 2020, Public Health and Intelligence Strategic Business Unit staff and activities (which included Health Protection Scotland and Information Services Division) transferred to Public Health Scotland. This was a significant change as it involved approximately 20 per cent of NHS NSS staff. NHS NSS applied a programme management methodology to the transition of staff and services to the new body.

80. Staff engagement continued throughout the process with regular updates to the Board. The transition has been successfully delivered with further organisational change expected in the new body. NHS NSS provides shared corporate services (IT, finance & legal services, HR, procurement and facilities management) to Public Health Scotland. This is an opportunity to demonstrate the value of its shared services offering.

NHS NSS procured PPE for Scotland in very difficult circumstances

81. The pandemic presented serious challenges to countries across the world in sourcing and procuring PPE. The global market was complex and volatile early in the pandemic, as worldwide demand grew rapidly, international supply chains collapsed, and prices increased. NHS NSS played a key role in Scotland's response to the pandemic by sourcing PPE for all NHS boards, and for social care providers through hubs operated by the health and social care partnership.

82. Between March 2020 and April 2021 NHS NSS distributed 1.1 billion items of PPE across Scotland. The price of PPE doubled in 2020 compared to the previous year and if NHS NSS had been able to purchase PPE at the 2019 prices it would have spent £37.4 million less in the first five months of the pandemic.

83. As global supply chains faltered, NHS NSS established new arrangements to provide PPE to primary and social care. NHS NSS set up 48 regional hubs to distribute PPE to social care providers, unpaid carers and personal assistants and provided PPE to primary care providers directly or through arrangements with NHS boards.

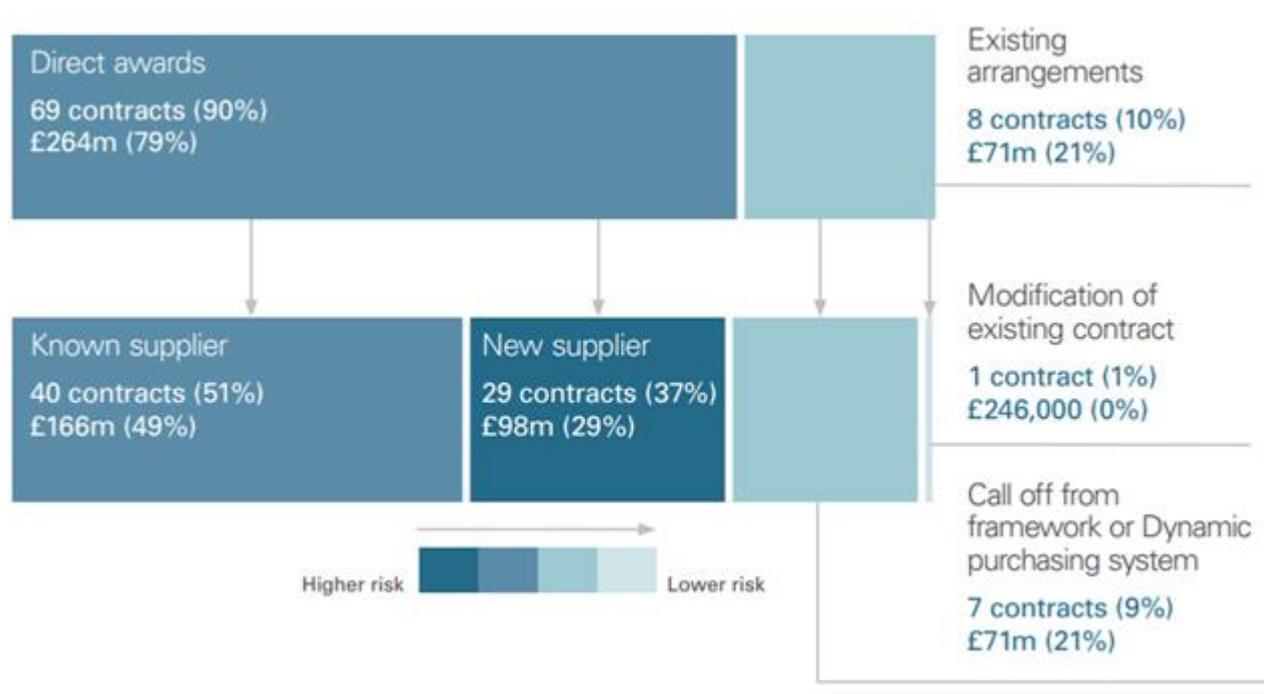
NHS NSS applied the emergency procurement regulations to directly award contracts without competition

84. The Scottish Government published guidance in March 2020 for public bodies procuring goods and services through the pandemic. This set out existing provisions in the procurement regulations which allows bodies to procure goods and services in extreme urgency.

85. NHS NSS awarded 78 contracts worth £340 million to companies providing PPE between March 2020 and June 2021. Of the contracts awarded 29, with a total value of £98 million, were awarded to new suppliers with no competition. This was in accordance with the emergency procurement procedures in place. Details of the contracts awarded are detailed in [Exhibit 7](#). NHS NSS returned to regular competitive procurement in April 2021.

Exhibit 7

Summary of contract awards to new suppliers



Source: Audit Scotland PPE briefing

86. Recognising the substantial increase in spending and the additional risks facing NHS NSS through the procurement of PPE we selected a sample of 12 contracts which covered the duration of the pandemic from March 2020 to July 2021. Within the sample, nine were direct awards, two were call-offs from a framework contract and one was a modification to an existing contract.

87. Our review did not find any issues with the quality of goods procured or the companies contracted. We identified two contracts that had overspends against the original contract value, one of £1 million and one of £3.1 million. NHS NSS has committed to ensuring retrospective contract approval and monitoring this through its established governance group.

Although we identified some variation in the procurement arrangements, we acknowledge the climate that NHS NSS was operating in to respond to the pandemic

88. Our review has highlighted areas where, in normal circumstances, we would have expected things to be done differently. It is however important to recognise the fact that NHS NSS was working under extreme pressure and did not have time to follow all the standard procedures. It is also important to recognise that the cost of not doing anything or in some circumstances taking too long to act is impossible to quantify.

89. At the start of the pandemic, the global PPE market was fast moving and volatile. We recognise that decisions had to be made quickly to secure factory time or freight space as countries across the world competed against each other for PPE. NHS NSS had to balance the risks of not following standard processes against the risk of not securing PPE for Scotland's front-line staff. At this stage in the pandemic there was no clear, structured process for staff to follow which set out what business as usual processes should be covered and what could be left out to avoid delays.

90. We found that there was inconsistent use of contract award letters; for most contracts these weren't used due to the risk of delay. We obtained one signed contract letter for a contract in our sample, it set out the quality requirements of the PPE, the payment schedule, the price and the shipping arrangements.

91. The contract approval documents we reviewed had varying degrees of detail. We found that three were signed after the contract start date and one had not been signed. This presents a risk that the contracts were not given sufficient scrutiny before they were signed.

92. There was no clear structure on the due diligence required for new suppliers. Procurement managers liaised with Scottish Enterprise to provide further information and in some instances visit foreign factories. However, we were unable to obtain evidence of a formal agreement between Scottish Enterprise and NHS NSS on the nature of the work required.

93. Purchase orders for the contracts state the standard terms and conditions for NHS NSS apply. These were not updated to reflect the pandemic. NHS NSS told us this was due to the time involved in redrafting which would risk losing several contracts.

94. For all the samples NHS NSS could provide assurance that the goods ordered would meet the required safety standards however these were recorded differently depending on the contract. This lack of consistency represented a risk to the clarity of the requirement.

95. As part of the regulations, bodies must publish a contract award notice within 30 days of a contract being awarded. Of the 74 PPE contracts awarded in the pandemic where an award notice was required, 20 per cent were published within 30 days and one remains outstanding. NHS NSS acknowledges that the unprecedented demands placed on its procurement team made achieving this challenging.

Recommendation 6

NHS NSS has been learning and further developing processes throughout the pandemic. At an appropriate time, it will be important to fully reflect and document the lessons learned and share the learning across the public sector. A key area should be the detailed due diligence required prior to awarding contracts.

96. By mid-April 2020, NHS NSS had developed an online portal to manage the large volume of emails related to offers of PPE. NHS NSS required companies who were offering PPE to complete the questions on the portal and provide accompanying evidence before their offer could be taken forward. It received 2,047 offers through the portal: 820 failed the checklist questions, 790 passed the checklist questions but were not required by NHS NSS so passed to the Scottish Government for non-health and social care requirements. Only one offer was taken forward. This streamlined process saved considerable time for NHS NSS staff reviewing emails which would not meet their requirements.

NHS NSS worked well with partners from early in the pandemic to source suppliers and make the supply chain more resilient

97. NHS NSS worked with the Scottish Government, Scottish Enterprise and the National Manufacturing Institute through the health supply chain programme, to overcome supply shortages and develop a more resilient supply chain. Staff from all organisations worked together to secure ventilators and ICU equipment, PPE, hand sanitiser and testing kits. There were daily calls, daily action reporting and weekly activity reports as part of this work. This meant that the implications of decisions across organisations could be better understood and taken quicker.

98. In addition, NHS NSS worked with the Scottish Government and Scottish Enterprise to develop a Scottish supply chain. As we reported in our [PPE briefing](#). At the start of 2020, none of the PPE purchased by NHS NSS was manufactured in Scotland. By April 2021, the Scottish Government reported that 88 per cent of PPE, excluding gloves, was manufactured in Scotland, often using Scottish raw materials. Gloves are almost exclusively produced in Malaysia, where there is an established supply chain. This has improved the resilience of the Scottish supply chain to support the response to further Covid-19 waves or a future pandemic. It is estimated that this has created 470 new jobs in Scotland.

There are adequate arrangements in place to deal with the associated risk of fraud

99. Prior to lockdown all auditors were asked to assess the risk of fraud in procurement. We started this work in 2019/20 just before lockdown but paused it in recognition of the additional demands placed on the procurement service in responding to the pandemic. Although many pressures remain we have been able to complete this work during 2020/21.

100. This work focused on the arrangements across both National Procurement (such as PPE detailed above) and NHS NSS procurement which mainly deals with corporate procurement required to run the organisation.

101. During business as usual procurement a fraud impact assessment (standard form set by the counter fraud service) will be carried out before going out to tender. The completed form is submitted to counter fraud services to complete a risk assessment and undertake a number of checks / provide recommendations for the tender process. The process is designed to reduce NHS NSS's exposure to fraud risk.

102. To support this, mandatory fraud awareness training is in place for all staff involved in the procurement process. This is a key part of the induction of new staff and must also be updated over three years to ensure updated standards are maintained.

Digital and Security provided the infrastructure to support homeworking and have developed key applications in response to the Covid-19 pandemic

103. Previously we have reported on the Digital and Security Strategic Business Unit developing and looking to deploy a cloud-based infrastructure across NHSScotland. Additional time, investment and progress on this work during 2019/20 proved timely when they were required to support the national effort responding to the Covid-19 pandemic.

104. Initial rapid application of Office 365 services to facilitate remote working during the early stages of the response, has been followed by the deployment of a number of critical Scotland-wide applications centred around their cloud-based IT Service Management system, Service Now. This includes the development of:

- a dashboard to manage the supply and demand of PPE equipment across Scotland
- a Case Management System, linked to the Community Health Index, to manage contact tracing across Scotland
- a Vaccination Management System that scheduled Covid-19 vaccinations and supports rescheduling via a public portal
- the Test and Protect check in system to support NHSScotland's contact tracing capability.

105. The increased dependence upon these cloud services has placed an additional support requirement on the Cloud Engineering team. The complement of this team has increased throughout 2020/21 with new team members being employed to support provision from 8am until 8pm, 7 days a week. This is a significant step; however, management recognise that further work is required in this area. It is anticipated that services requiring full 24/7/365 support will be deployed during 2022, therefore management must continue to assess the medium and long-term implications for the staffing model.

Recommendation 7

NHS NSS should revisit resource plans, particularly for Digital and Security, to ensure they support the longer-term vision for the service and the additional demands being placed on it.

National performance audit reports

106. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to NHS NSS and are highlighted in [Appendix 3](#).

107. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2022.

Good practice

From our audit work we have identified the partnership working between NHS NSS, the Scottish Government and Scottish Enterprise as an area of good practice. It was established at pace to respond to critical procurement needs and has resulted in the establishment of a resilient Scottish supply chain.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p>1. Providing a redacted audit trail has proved challenging for some Strategic Business Units</p> <p>For some National Services Division journals, and a number of income and expenditure transactions, considerable audit time was required to establish a complete audit trail of evidence back to source documentation.</p> <p>Risk – Insufficient audit evidence is obtained to support the transactions in the financial statements.</p>	<p>As NHS NSS is a health board which provides some clinical services there should be an agreed redaction protocol to ensure accountability through a complete audit trail while retaining confidentiality.</p> <p>Paragraph 16. and Exhibit 2</p>	<p>NHS NSS will carry out a full review of the NSD financial service to ensure robustness of financial governance and control and timely submission of redacted audit evidence to support the financial transactions in the accounts.</p> <p>Director of Finance and Director of NSD</p> <p>December 2021</p> <p>In relation to the backlog maintenance provision: the process for documented evidence to support estimated costs using industry averages and other expert advice will be reviewed and strengthened.</p> <p>Head of Estates and Facilities</p> <p>March 2022</p>
<p>2. Accuracy of the unaudited financial statements</p> <p>Audit testing identified balances for pharmacy rebates that should have been excluded from the NHS NSS financial statements.</p> <p>Risk – The financial statements presented for audit are materially misstated.</p>	<p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity are excluded from the NHS NSS financial statements.</p> <p>Exhibit 2</p>	<p>A lessons learned session will be carried out at the end of this audit cycle to address the issues raised during the 2020/21 audit.</p> <p>Finance will look to automate the process for eliminating agency financial arrangements and include appropriate cut off times into the year end process before</p>

Issue / risk	Recommendation	Agreed management action / timing
		<p>the draft accounts are submitted.</p> <p>Associate Director of Finance October 2021</p>
<p>3. Remuneration report disclosures</p> <p>The unaudited remuneration report contained a significant number of inaccuracies which required audit adjustment.</p> <p>Risk – The remuneration report presented for audit is inaccurate.</p>	<p>The process for compiling the remuneration report should be reviewed and strengthened.</p> <p>Exhibit 2</p>	<p>The process for gathering this information will also form part of the lesson learned exercise.</p> <p>We will improve the process to include further reconciliations between payroll and the finance ledger and add an independent reviewer.</p> <p>Associate Director of Finance December 2021</p>
<p>4. Financial sustainability</p> <p>As NHS NSS's role has expanded the funding requirement has been met on a non-recurring basis. This impacts on the ability to embed medium and long term planning.</p> <p>Risk – NHS NSS cannot build the required workforce and / or demonstrate financial sustainability due to funding uncertainty.</p>	<p>NHS NSS should work with the Scottish Government to agree future recurring funding which reflects its expanding role.</p> <p>Paragraph 50.</p>	<p>We have established formal engagement meetings with SG finance colleagues and the dialogue will continue through these meetings.</p> <p>We expect to have final certainty in resources after the Q2 finance review with SG.</p> <p>Director of Finance November 2021</p>
<p>5. Openness and transparency</p> <p>Board meeting agendas, minutes and papers, since December 2020 are available on the website, however nothing is available for previous Board meetings. In addition, agendas and minutes for committees are not published.</p> <p>Risk – In the current environment the availability of information virtually is even more important, and the</p>	<p>NHS NSS should explore the opportunities provided by the relaunched website to improve the availability of information to the public.</p> <p>Paragraph 68.</p>	<p>The new NHS NSS website was launched in April. All documents published on the website must meet accessibility requirements. Papers from December 2020 are now available on the website. For papers prior to December 2020 we have provided details of how the public can request these documents until they are available.</p> <p>Committee Services Manager</p>

Issue / risk	Recommendation	Agreed management action / timing
<p>website does not demonstrate that NHS NSS is open and transparent.</p>		<p>September 2021</p>
<p>6. Variations in the procurement arrangements applied during the pandemic</p> <p>We found areas of inconsistency during our audit work on the Covid-19 procurement arrangements including the use of contract award letters, detail on contract approval documents and level of due diligence required.</p> <p>Risk – The lack of consistency impacts on the robustness of the decision-making processes.</p>	<p>NHS NSS has been learning and further developing processes throughout the pandemic. At an appropriate time, it will be important to fully reflect and document the lessons learned and share the learning across the public sector. A key area should be the detailed due diligence required prior to awarding contracts.</p> <p>Paragraph 89. - 95.</p>	<p>NHS NSS has now fully implemented its standard business processes and continues to closely monitor contract award governance. Processes for due diligence will be reviewed and where required updated to reflect lessons learned.</p> <p>National Procurement Head of Governance</p> <p>March 2022</p>
<p>7. Demands on the Digital and Security business unit continue to increase</p> <p>The increased dependence upon cloud services, in responding to the pandemic, has placed an additional support requirement on the Digital and Security team.</p> <p>Risk – The Digital and Security service is insufficiently resourced to deliver the required services.</p>	<p>NHS NSS should revisit resource plans, particularly for Digital and Security, to ensure they support the longer-term vision for the service and the additional demands being placed on it.</p> <p>Paragraph 105.</p>	<p>The DaS transformation programme has recommenced with a strong focus on workforce requirements for future service delivery.</p> <p>Director of DaS and Director of Finance (SRO for transformation programme)</p> <p>Ongoing</p>

Follow-up of prior year recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p>8. Capital accounting</p> <p>The use of ‘transfers between categories’ of non-current assets to correct mis-coding of capital expenditure.</p>	<p>Refresher training on capital accounting should be held with relevant SBU staff to agree appropriate account codes for each capital project and how to identify the</p>	<p>Complete</p> <p>A small number of mis-codings were identified, but overall improvement in this area.</p>

Issue / risk	Recommendation	Agreed management action / timing
Risk – inefficient use of finance resources.	revenue / capital split of project spend.	
9. Classification errors and missing disclosures in unaudited accounts	The unaudited annual report and accounts should be reviewed by management to ensure that all required content is included before submission for audit and that classification of significant areas is correct.	<p>Complete</p> <p>The unaudited annual report and accounts was reviewed by management prior to submission for audit.</p> <p>Classification errors and incomplete disclosures were minimal.</p>
10. Transparency: NHS NSS website	NHS National Services Scotland should ensure that openness and transparency are maintained through timely publication of Board papers on the website.	<p>Outstanding</p> <p>Recommendation 5</p>
11. Equality and diversity	NHS NSS should ensure that its equality and diversity web page is kept up to date, including the most recent version of documents required under the Equality Act 2010. Further improvements could be made by publishing equality impact assessments and highlighting the availability of information in other formats.	<p>In progress</p> <p>Key equality documents (Equality Outcome and Mainstream Report and Equality Pay Gap Report) both published on the website, but not linked on the equality and diversity page.</p> <p>Linked to Recommendation 5 on new website accessibility.</p>
12. Preparation of unaudited accounts	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>In progress</p> <p>Support to the audit team from finance staff included ring fenced resource.</p> <p>Linked to Recommendation 2 and 3 on further improvements required.</p>

Issue / risk	Recommendation	Agreed management action / timing
13. Trade Union Facility Time Disclosure	<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>Complete</p> <p>Disclosures included in the audited annual report and accounts.</p>
14. National Boards Collaboration	<p>NHS NSS should work with other national boards to progress the collaborative workstreams and deliver the required change to service provision.</p>	<p>Paused</p> <p>The response to the Covid-19 pandemic has paused this work and we will reflect on any changes in 2021/22.</p>
15. Efficiency Savings	<p>NHS NSS should ensure that savings plans are developed to close the gap between target and identified saving.</p>	<p>In progress</p> <p>Non-recurring efficiency savings delivered in 2020/21.</p> <p>Linked to Recommendation 4 on financial sustainability.</p>
16. External PSIAS review of internal audit required for compliance	<p>NHS NSS 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>Complete</p> <p>We have been advised that this has now been completed and we will consider the outcome as part of 2021/22 audit planning.</p>
17. ICT Contract Management	<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>In progress</p> <p>Governance arrangements have been strengthened via the Portfolio Management Group and we will continue to monitor progress as part of the 2021/22 audit.</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</p> <p>NHS NSS has a number of programmes which are required to be self-funding, and thus could create incentive to manipulate the revenue position.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Assessment of the appropriateness of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business. • Targeted audit testing of the income and expenditure associated with self-funding programmes. 	<p>Results: We undertook detailed testing of journal entries, accruals, prepayments, and invoices. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement caused by fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include the consideration of fraud in expenditure for public-sector bodies.</p> <p>NHS NSS's expenditure has increased significantly due to procurement for NHS Scotland's Pandemic response. Some procurement expenditure was incurred at pace to secure supplies (particularly PPE).</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Analytical procedures over expenditure streams to support detailed testing. Focused testing of PPE contracts to ensure appropriateness of award and subsequent spend. Detailed testing of expenditure transactions focusing on the areas of greatest risk, e.g. advance payments to new suppliers. 	<p>Results: We undertook detailed testing of expenditure transactions and focused testing of payments associated with PPE procurement contracts.</p> <p>Conclusion: We did not identify any incidents of fraud.</p>
<p>3. Risk of error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as non-current assets, provisions and inventories.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic.</p> <p>Provisions is a potentially material account area in 2020/21, as the costs of decommissioning the NHS Louisa Jordan field hospital will be provided for at the year end.</p> <p>The inventories balance is material in the NHS NSS financial statements and may rise significantly due to increased procurement to support NHS Scotland's</p>	<ul style="list-style-type: none"> Assessment of the scope, independence and competence of the professional valuer. Establish and assess the appropriateness of managements arrangements for ensuring the completeness and accuracy of non-current asset estimates. Evaluation the appropriateness of the provisions and ensure correctly accounted for. Attendance at stock count to ensure appropriate procedures are followed. Confirmation, in partnership with the Scottish Government external audit team, of the ownership of pandemic stock and the 	<p>Results: We discussed the valuation process with the Valuer, reviewed the reports and confirmed these to the asset valuations in the accounts with no issues identified. We completed detailed testing of provisions with a focus on those created in year. We attended a year end stock count virtually and assessed the appropriateness of the year end valuation.</p> <p>Conclusion: We did not identify any significant issues with the estimations and judgements used in the annual report and accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>response to the Covid-19 pandemic. Inventories write off or impairment requires management judgement.</p> <p>The subjectivity of estimation and judgements by management represents an increased risk of misstatement in the financial statements.</p>	<p>application of appropriate accounting policies in determining any impairment of its value at year end.</p>	
<p>4. Risk of insufficient arrangements to support the preparation of the annual report and accounts</p> <p>The timetable for the preparation and audit of the financial statements is always challenging and we are aware that finance staff are continuing to work under additional pressure due to the response to the Covid-19 pandemic.</p> <p>There is a risk that, without robust and comprehensive arrangements for preparation and management review, the quality of the unaudited annual report and accounts may be reduced. This would impact on our ability to meet the agreed timescales for the Audit and Risk Committee.</p>	<ul style="list-style-type: none"> • Agreement of accounts timetable, including additional time for preparation and management review, and a later planned sign-off in August. • Preparation of a working papers checklist to be supplied with the unaudited financial statements and support the efficient delivery of the audit. 	<p>Results: The unaudited annual report and accounts was delivered in accordance with the agreed timetable and was of a good standard.</p> <p>Conclusion: The preparation arrangements were appropriate, however audit testing has identified opportunities to further strengthen arrangements.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>5. PPE procurement: governance, transparency and value for money</p> <p>As part of its role in NHS Scotland's Covid-19 response, NHS NSS has spent more than £300 million on the purchase of Personal</p>	<ul style="list-style-type: none"> • Review and assessment of contract governance, including appropriateness of advance payments and due diligence. (We will also place reliance on 	<p>Results: Audit testing identified some variation in the procurement arrangements applied. However appropriate governance arrangements were in place for the award of PPE contracts and adequate</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Protective Equipment (PPE). Emergency procurement arrangements were put in place.</p> <p>There is a risk that the increased speed to deal with demand has impacted on the robustness of established processes.</p>	<p>internal audit's work in this area).</p> <ul style="list-style-type: none"> Assessment of fraud risks around procurement of PPE and how this was managed by NHS NSS. 	<p>arrangements are in place to deal with the associated risk of fraud.</p> <p>Conclusion: We did not identify any significant issues with the PPE procurement processes.</p>
<p>6. Digital and Security: capacity and Covid-19 impact</p> <p>Strategic Business Units in NHS NSS, particularly Digital and Security (DaS) and Procurement, Commissioning & Facilities (PCF) continue to make significant contributions to NHS Scotland's Covid-19 response. We have previously flagged a potential capacity risk in DaS, and since then there have been new demands and pressure placed on this SBU.</p> <p>There is a risk that delivery of "business as usual", including major ICT programmes and an ambitious digital transformation strategy to support NHS NSS's "Cloud First" vision, could be delayed.</p>	<ul style="list-style-type: none"> Review of major digital programmes and digital transformation, using existing oversight reporting where possible to reduce the demands on DaS officers. Review progress against our previous audit recommendations: the need to document the overall approach to ICT contract procurement and management; and the need to ensure knowledge transfer and succession planning. We will assess arrangements to increase DaS capacity 	<p>Results: The response to the pandemic has impacted progress on other ICT developments.</p> <p>Conclusion: Resource plans should be revisited to ensure the longer-term vision is supported.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

NHS National Services Scotland

2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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



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