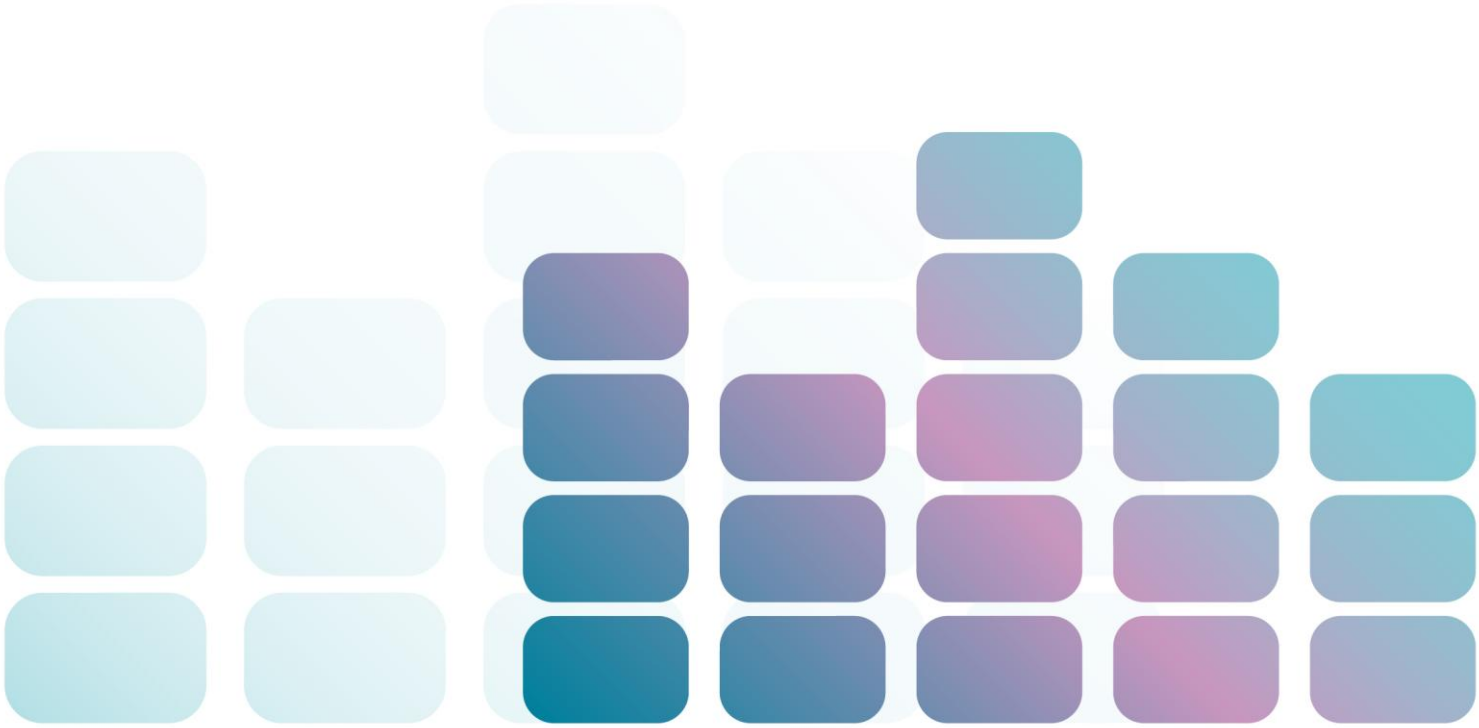
# NHS National Services Scotland

## 2024/25 Annual Audit Report



AUDIT SCOTLAND

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

June 2025

# Contents



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# Key messages

## Audit of the annual report and accounts

1 Audit opinions on the annual report and accounts were unmodified.

2 The unaudited accounts and working papers were received in line with the agreed audit timetable and there was an improvement in the quality of working papers and timeliness of responses to audit queries.

3 On 17 June 2025 the Cabinet Secretary for Health and Social Care announced that NHS National Services Scotland (NHS NSS) will come together with NHS Education for Scotland to create a new single body called NHS Delivery from 1 April 2026. Management reviewed the going concern assessment and included additional disclosures in the audited accounts.

## Financial management and sustainability

4 NHS NSS operated within its Revenue Resource Limit of £791 million, but continued to rely on non-recurring funding and savings to achieve this. The reported Revenue Resource Limit includes £109.6 million funding for Scottish Infected Blood Support Scheme (SIBSS) payments.

5 There are appropriate internal financial control arrangements in place, but NHS NSS should progress the recommendations in our management letter and strengthen the controls identified in the qualified service audit reports for the payroll service and IT contract.

6 NHS NSS maintains a three-year rolling financial forecast which shows a balanced position that is dependent on the achievement of savings and non-recurring funding. The uncertainty created by non-recurring funding streams makes planning into the future more challenging.

## Vision Leadership and Governance

7 NHS NSS has a clear vision and strategy and arrangements to enable the delivery of the vision, strategy and priorities. This is supported by appropriate and effective governance arrangements.

**8** NSH NSS will need to work closely with NHS Education for Scotland to manage the transfer of functions to the new NHS Delivery body from 1 April 2026, and to support the transition for staff and service users.

## Use of resources to improve outcomes and Best Value

**9** NHS NSS has appropriate performance monitoring arrangements in place to track progress against its delivery plans.

**10** NHS NSS is managing a significant risk over the capacity of its payroll service that delivers payments to 80,000 staff across several health boards.

# Introduction

## Purpose of the Annual Audit Report

**1.** This Annual Audit Report sets out the findings from the 2024/25 audit of NHS National Services Scotland's annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

**2.** The report is addressed to the Board of NHS National Services Scotland (NHS NSS) and the Auditor General for Scotland, and will be published on Audit Scotland's website once the audited accounts have been laid at the Scottish Parliament.

## Appointed auditor and independence

**3.** Lisa Duthie, Audit Director of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of NHS National Services Scotland. As reported in the Annual Audit Plan, Lisa and the audit team are independent of NHS National Services Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team, including the provision of non-audit services.

## Acknowledgements

**4.** We would like to thank all management and staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to continuing to work together constructively over the remainder of the five-year audit appointment.

# Audit scope and responsibilities

## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure
- an opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report
- conclusions on the arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes
- reporting on the arrangements for securing Best Value.

## Responsibilities and reporting

**6.** The Code of Audit Practice sets out the respective responsibilities of the auditor and NHS National Services Scotland. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the arrangements in place for the wider scope areas and Best Value.

**8.** This report includes an agreed action plan at Appendix 1. This sets out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

**9.** Weakness or risks identified in this report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or the

Audit and Risk Committee, as those charged with governance, of the responsibilities outlined below.

### NHS National Services Scotland's responsibilities

**10.** NHS NSS has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- establishing arrangements to ensure the proper conduct of its affairs
- preparation of an annual report and accounts, comprising financial statements and other specified information that gives a true and fair view
- establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption
- implementing arrangements to ensure its financial position is soundly based
- making arrangements to secure Best Value
- establishing an internal audit function.

## National and performance audit reporting

**11.** The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to NHS NSS. Details of recently published national and performance audit reports can be seen in Appendix 3.

# Audit of the annual report and accounts

## Main judgements

Audit opinions on the annual report and accounts were unmodified and the 2024/25 annual report and accounts were certified on 27 June 2025, in line with the agreed timetable.

The unaudited accounts and working papers were received in line with the agreed audit timetable and there was an improvement in the quality of working papers and timeliness of responses to audit queries.

On 17 June 2025 the Cabinet Secretary for Health and Social Care announced that NHS National Services Scotland will come together with NHS Education for Scotland to create a new single body called NHS Delivery from 1 April 2026. Management reviewed the going concern assessment and included additional disclosures in the audited accounts.

## Audit opinions on the annual report and accounts are unmodified

**12.** The Board approved the annual report and accounts for NHS NSS for the year ended 31 March 2025 on 27 June 2025. 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 in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

## The unaudited accounts and working papers were received in line with the agreed audit timetable and there was an improvement in the quality of working papers and timeliness of responses to audit queries

**13.** The unaudited annual report and accounts and working papers were received on 7 May 2025 in accordance with the agreed audit timetable. The working papers presented for audit were of a good standard and a notable improvement has been made from the prior year audit, with a small number of papers being received after the agreed date.

**14.** We are pleased to note there was also an improvement in the timeliness of responses to our audit queries. We will continue to work with management to identify ways to achieve efficiencies in the audit process for future years.

## Overall materiality was reviewed on receipt of the unaudited annual report and accounts and was increased to £12.2 million in line with reported expenditure

**15.** Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

**16.** The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**17.** Materiality levels for the audit of NHS NSS were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated to reflect expenditure reported in year and these can be seen in Exhibit 1.

## Exhibit 1
### 2024/25 Materiality levels

| Materiality | NHS National Services Scotland |
|---|---|
| **Materiality** – set at one per cent of gross expenditure. The overall materiality threshold was set with reference to gross expenditure, as it is considered to be the figure most relevant to the users of the financial statements. | £12.2 million |
| **Performance materiality** – set at 65 per cent of materiality. This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required. | £7.9 million |
| **Reporting threshold** – we are required to report to those charged with governance on all unadjusted misstatements greater than the 'reporting threshold'. | £500,000 |

Source: Audit Scotland

## Significant findings and key audit matters

**18.** ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for NHS NSS is the Audit and Risk Committee.

**19.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**20.** In determining key audit matters, auditors consider:

- areas of higher or significant risk of material misstatement
- areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty
- significant events or transactions that occurred during the year.

**21.** The significant findings and key audit matters to report are outlined in Exhibit 2.

## Exhibit 2
### Significant findings and key audit matters

| Significant findings and key audit matters | Outcome |
|---|---|
| **1. Creation of NHS Delivery**<br><br>On 17 June 2025 the Cabinet Secretary for Health and Social Care made a statement to the Scottish Parliament on Delivering Reform and Renewal for Health and Social Care. The "Service Renewal Framework" recognises that to meet the ambition of service renewal and address the health and care needs of our population, there is a need to work differently. As part of this framework NHS NSS will come together with NHS Education for Scotland to create a new single body called NHS Delivery from 1 April 2026.<br><br>International Accounting Standard 1 – Presentation of Financial Statements sets out that: "*When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern…In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.*"<br><br>Practice Note 10 – Audit of Public Sector bodies in the UK clarifies that: "*When the auditor becomes aware of information which indicates that the Parliament has made, or plans to make, a decision which is likely to impact on the entity's continued operational existence, the auditor first establishes whether the entity's operational activities are likely to be transferred elsewhere in the public sector. If they are, irrespective of whether the entity will continue to operate, the going concern basis of preparation of the financial statements is likely to remain appropriate.*"<br><br>Following the Cabinet Secretary's announcement, we requested management to provide a copy of its updated going concern assessment reflecting these new circumstances. | Management updated its going concern assessment and provided a letter from Scottish Government to the audit team on 18 June 2025. This stated that as the functions of NHS NSS will transfer in full to NHS Delivery, then this does not impact on the assessment that these services will continue to be delivered for at least 12 months from the date that the NHS NSS annual report and accounts are authorised for issue.<br><br>Management also made revisions to the audited annual report and accounts to:<br><br>• revise the going concern disclosure to explain the announcement and why adopting the going concern basis of accounting remains appropriate<br><br>• disclose the announcement as a non-adjusting post balance sheet event at 'Note 14. Events after the end of the reporting period'<br><br>• update the Performance Report to disclose the announcement.<br><br>We reviewed management's updated going concern assessment and agreed that, as the legal entity for NHS NSS' operational activities remains unchanged, the going concern basis of accounting remains appropriate for the 2024/25 annual report and accounts. We are also content that the additional disclosures included in the audited accounts reflect the requirements of the NHS Accounting Manual and adequately explain the circumstances for readers of the accounts.<br><br>This has not impacted upon our audit opinions on the NHS NSS 2024/25 annual report and accounts set out at paragraph 12. |

| Significant findings and key audit matters | Outcome |
|---|---|
| **2. HMRC decision on the VAT treatment of the procurement of the NHS Scotland M365 platform**<br><br>In May 2025, HMRC assessed that NHS NSS was not entitled to reclaim VAT amounts previously treated as recoverable for the use of Microsoft 365.<br><br>NHS NSS already held a £34.4 million liability for the reclaimed VAT on the basis that the decision from HMRC was outstanding. This was reduced to £31.7 million based on the HMRC decision letter. A £4.8 million provision previously held for the interest element has been released, with the actual liability of £3.2 million now recognised to reflect the HMRC outcome.<br><br>A new provision of £1.3 million has been recognised for interest due on reclaimed VAT in 2024, which has not yet been charged by HMRC. | The financial statements have been amended to account for the HMRC assessment on the VAT treatment of the procurement of NHS Scotland M365 platform. The overall impact is a decrease in net expenditure of £1.8 million and a corresponding decrease in liabilities.<br><br>A revised allocation letter was received from Scottish Government on 5 June 2025 to reflect the adjustments.<br><br>Appendix 2 |
| **3. Scottish Infected Blood Support Scheme (SIBSS) payments**<br><br>The Scottish Government instructed NHS NSS to administer compensation payments for patients included within the Scottish Infected Blood Support Scheme (SIBSS).<br><br>An interim payment was made in June 2024 to those infected persons registered with SIBSS. NHS NSS was responsible for establishing a system for processing the applications and deciding whether the applicants were eligible to receive compensation payments.<br><br>The Scottish Government provided the funding for these payments in the form of Capital Annually Managed Expenditure (CAME) and instructed NHS NSS to treat this as Core Revenue Resource Limit (RRL) funding for the purposes of preparing the annual report and accounts. | The disclosures in the accounts have been amended in line with the Scottish Government instruction issued to NHS NSS on 24 June 2025.<br><br>This states that in recognition of the fact that under the Government Financial Reporting Manual (FReM), the £109.6m should be accounted for through the Statement of Comprehensive Net Expenditure (SoCNE) by NSS, NSS is instructed to treat the £109.6m CAME funding provided as Core Revenue Resource Limit (RRL) funding for the purpose of preparing the annual report and accounts for 2024/25 to match the funding with the accounting treatment of the expenditure.<br><br>Note 2a (Summary of core revenue resource outturn) and Note 7d (Analysis of capital expenditure) have been amended to reflect the instructed accounting treatment and an additional disclosure has been included. |

| Significant findings and key audit matters | Outcome |
|---|---|
| **4. Misclassification of land**<br><br>As part of our ownership and existence testing, we selected the land associated with the Jack Copland Centre (value £2.1m) and requested the appropriate back up to confirm ownership. The document provided was a lease agreement between Heriot Watt University and Scottish Ministers for a period of 125 years.<br><br>This was discussed with management who advised that, although a lease in principal, in substance it is owned. From our review of the documentation provided, and after consultation with Audit Scotland's technical team, our view is that the land is not owned by NHS NSS and should classified as a Right of Use (RoU) asset. | This has been discussed with management who have agreed to review the classification of this asset in 2025/26 to ensure that it is correctly disclosed.<br><br>We have accepted this response and have confirmed that the monetary impact on the accounts of the decision not to adjust is below our reporting threshold. |

Source: Audit Scotland

**22.** An additional issue has been identified through the financial statements audit that is not material to the accounts, but we are bringing it to your attention as it relates to the NHS NSS's governance and ability to demonstrate Best Value.

## There are risks associated with the secondment arrangements in place

**23.** Secondments of staff are organised between boards to support the right staff being in place across Scotland to provide health services. We identified that NHS NSS has 32 staff on secondment with 16 employees seconded to the Scottish Government and others working across a range of territorial and special boards. Some of the secondments with Scottish Government have been in place for a considerable time.

**24.** Service level agreements (SLAs) are in place between NHS NSS and the Scottish Government which details the employment terms for these individuals. They remain as NHS NSS employees, on its terms and conditions, while carrying out their new roles in Scottish Government. This is despite their moves to Scottish Government being into long term, possibly permanent roles. Many do not have permanent posts to come back to and would be placed in the redeployment pool.

**25.** Outward secondee costs are reimbursed through Scottish Government recharges included in NHS NSS's income. From an accounting perspective, inclusion of their staff costs in NHS NSS's accounts, when

they do not provide services to the board to match against these costs, does not represent a true and fair reflection of their role.

**26.** Retaining these individuals on NHS NSS employment contracts long term also means that any employment responsibilities and risks remain with NHS NSS, while it gets no benefit in terms of services from them. This does not represent Best Value for NHS NSS. Management are aware of the risks associated with the secondment arrangements and are working with the Scottish Government to reduce the number of posts treated in this way.

### Recommendation 1

The employment arrangements of employees seconded to long term positions within Scottish Government or other boards should be reviewed.

## NHS NSS disclosed losses of £10.5 million relating to expiring vaccines, medicines and personal protective equipment

**27.** The 2024/25 annual report and accounts discloses losses of £10.5 million relating to expired flu and covid vaccine stock (£0.5 million), National Emergency Planning medicines (£0.5 million), pandemic related personal protective equipment (PPE) (£5.5 million) and National Distribution Centre stock (£1.6 million). To minimise waste, NHS NSS donated £2.4 million of stock to “Kids OR” and “Ukraine of Caretek beds”. This amount is included in the total reported losses. Similar losses of £12.7 million were reported in 2023/24. Our audit work confirmed that the inventory management arrangements in place were appropriate.

**28.** NHS NSS manage stock on behalf of the Scottish Government. During 2024/25, COVID-19 antivirals with an estimated value of £32.7 million was destroyed following product expiry. This stock was purchased by the UK Government in 2021/22 and was provided free of charge to Scotland. NHS NSS do not hold a value for this stock on the statement of financial position, however in line with the process agreed with Scottish Government, authorisation for the write off was obtained.

## We have no issues to report on the qualitative aspects of accounting practices used for the 2024/25 financial statements

**29.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body’s accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

### The accounting policies adopted were appropriate and applied correctly.

**30.** The appropriateness of accounting policies adopted by the body was assessed as part of the audit. These were considered to be appropriate to the circumstances of NHS NSS, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

### There was no evidence of management bias in accounting estimates

**31.** Accounting estimates are used in number of areas in the NHS NSS's financial statements, including the valuation of land and buildings assets and the valuation of inventories. Audit work considered the process management has in place to inform accounting estimates, including the assumptions and data used in arriving at the estimates, and the use of management experts. Audit work concluded:

- there were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable
- there was no evidence of management bias in making the accounting estimates.

### Appropriate disclosures were included in the financial statements

**32.** The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as revaluation of land and buildings.

## We identified two misclassification errors which were unadjusted

**33.** As reported in Exhibit 2, our testing identified that the £2.1 million land asset associated with the Jack Copland Centre should be classified as a right-of-use asset. Through our asset classification testing, we also identified an asset that had been incorrectly categorised as a software licence rather than IT software. The net book value of the asset at the year-end was £0.5 million. This is an unadjusted classification error that impacts the disclosures in Note 7a. Management have agreed to review the classification of both assets in 2025/26.

## Audit work responded to the risks of material misstatement identified in the annual report and accounts

**34.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 3.

## Exhibit 3
### Significant risks of material misstatement to the financial statements

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| **Fraud caused by management override of controls**<br>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. | The audit team will:<br>• Evaluate the design and implementation of controls over journal entry processing.<br>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.<br>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.<br>• Evaluate significant transactions outside the normal course of business.<br>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.<br>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. | Audit work performed found:<br>• The design and implementation of controls over journal processing were appropriate.<br>• No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.<br>• No significant issues were identified from testing of journal entries.<br>• There were no significant transactions identified outside the normal course of business.<br>• The controls in place for identifying and disclosing related party relationships were appropriate.<br>• The methods and assumptions used to prepare accounting estimates were confirmed to be reasonable. No evidence of management bias was identified.<br>**Conclusion:** No evidence of fraud caused by management override of controls was identified. |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| **Estimation in the valuation of land and buildings**<br><br>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes can have a material impact on the valuations.<br><br>All non-current assets are revalued on a five-year rolling basis. NHS NSS must ensure that its valuation process for land and buildings adequately reflects changes in the property market so that the financial statements are not materially misstated. | The audit team will:<br><br>• Evaluate the design and implementation of controls over the valuation process.<br><br>• Review the information provided to the valuer and assess this for completeness and accuracy.<br><br>• Evaluate the competence, capabilities, and objectivity of the valuer.<br><br>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.<br><br>• Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required.<br><br>• Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. | Audit work performed found:<br><br>• The design and implementation of controls over the valuation process were appropriate.<br><br>• The information provided to the valuer was accurate and complete.<br><br>• The valuer had sufficient competence, capability, and objectivity to perform their work.<br><br>• Management are involved in the valuation process and have an appropriate level of oversight.<br><br>• The data and assumptions used in the 2024/25 valuation process were appropriate.<br><br>• Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end.<br><br>**Conclusion:** The valuation of land and buildings is not materially misstated. |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| **Risk of material misstatement due to fraud in expenditure**<br><br>Practice Note 10 extends the requirements of ISA (UK) 240 to include consideration of fraud in expenditure for public bodies.<br><br>This is a significant risk for NHS NSS due to the complexity and number of expenditure streams, including the procurement and contracting NHS NSS undertakes on behalf of other NHS Boards. | The audit team will:<br><br>• Conduct analytical procedures over expenditure streams to support detailed testing.<br><br>• Undertake focused testing of payments made under contracts.<br><br>• Undertake substantive testing of expenditure transactions across the financial year.<br><br>• Undertake substantive testing of post-year end payments to confirm they have been recorded in the correct financial year. | Audit work performed found:<br><br>• Satisfactory responses were provided for all significant variances identified in the analytical procedures carried out.<br><br>• No significant issues were identified from testing of payments made under contracts.<br><br>• No significant issues were identified from testing of expenditure transactions made across the financial year.<br><br>• No significant issues were identified from testing of post-year end payments.<br><br>**Conclusion:** No evidence of fraud in expenditure was identified. |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| **Estimation in the valuation of inventories**<br>ISA (UK) 501 defines the specific audit procedures required where inventory is material.<br>As NHS NSS procures and holds inventories for NHS in Scotland this is a significant risk due to its high value, susceptibility to fraud and complexity in the valuation methods. | The audit team will:<br>• Assess the design and implementation of controls over inventory management and counts.<br>• Attend physical inventory counts to observe procedures, assess the accuracy of instructions and test the reliability of records.<br>• Agree stock balances at 31 March 2025 to control sheets prepared during inventory counts.<br>• Substantively test inventory items by tracing them back to purchase invoices to verify the accuracy of valuations.<br>• Assess the adequacy of provisions for obsolete inventory by reviewing management's inventory analysis.<br>• Review the inventory write offs including the approval process. | Audit work performed found:<br>• The design and implementation of controls over inventory management and counts were appropriate.<br>• No significant issues were identified from testing the inventory counts and testing the reliability of records.<br>• The year-end stock balances were agreed to the signed stock certificates.<br>• No significant issues were identified from testing of inventory items to purchase invoices in verifying the accuracy of valuations.<br>• The provisions for obsolete inventory appeared appropriate.<br>• Evidence of approval for the write offs in 2024/25 was obtained.<br>**Conclusion:** The valuation of inventories is not materially misstated. |

Source: Audit Scotland

## Good progress was made on prior year recommendations

**35.** NHS NSS has made good progress in implementing the agreed 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.

# Wider scope and Best Value audit

## Audit approach to wider scope and Best Value

### Wider scope

**36.** As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

**37.** Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the body has in place for each of these is reported in this chapter.

### Duty of Best Value

**38.** The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

**39.** Consideration of the arrangements the body has in place to secure Best Value has been carried out alongside the wider scope audit. Last year we reported that NHS NSS had prepared a document which outlined the various actions and arrangements in place to meet each of the best value characteristics. This year our work focused on the fairness and equality characteristic.

### NHS NSS demonstrates commitment to securing fairness and equality characteristic of best value

**40.** As reported in the Annual Audit Plan, specific work covering the 'fairness and equality' Best Value characteristic was carried out as part of the 2024/25 audit. We found that:

- Equality objectives and outcomes are promoted across NHS NSS through various methods. This includes mandatory and voluntary training as well as inclusion webinars available to staff.

- NHS NSS has developed seven defined equalities outcomes outlined in the 'NSS Equality Outcome Plan 2025-29'. Progress against these actions is monitored by the Equality and Diversity Steering Group and Executive Management Team (EMT).
- NHS NSS incorporates equalities in its strategic planning. For example, the Strategic Framework 2024-2026 includes a priority to reduce inequalities under NHS NSS's vision to develop as an anchor organisation.
- Equality impact and fairer Scotland assessments influence strategic decision-making, alongside consultation with relevant stakeholders. NHS NSS regularly consider the findings from the equality impact assessments to improve their approach.

**41.** Based on the above, we are satisfied that NHS NSS demonstrates a commitment to securing best value in relation to fairness and equality.

## Financial Management

### Conclusion

NHS NSS operated within its Revenue Resource Limit of £791 million, but continued to rely on non-recurring funding and savings to achieve this. The reported Revenue Resource Limit includes £109.6 million funding for Scottish Infected Blood Support Scheme (SIBSS) payments.

There are appropriate internal financial control arrangements in place, but NHS NSS should progress the recommendations in our management letter and strengthen the controls identified in the qualified service audit reports for the payroll service and IT contract.

### NHS NSS has appropriate arrangements to secure sound financial management

**42.** The NHS NSS Board approved its Budget and Financial Plan for 2024/25 in March 2024 which included a balanced financial position. This budget position was kept under review throughout the year, with updates being reported to the Board on a quarterly basis.

**43.** Through the course of our audit work we have observed that the financial management in place at NHS NSS supports a culture of accountability. This is demonstrated through regular and accurate reports provided to the Board and Finance, Procurement and Performance Committee. The finance team are also open with the external audit team on significant and relevant matters.

**44.** Based on our review of the 2024/25 budget setting process, and the arrangements in place to monitor and report on the financial position

throughout the year, we have concluded that NHS NSS has appropriate arrangements to secure sound financial management and allow adequate scrutiny by the Board.

### NHS NSS operated within its Revenue Resource Limit of £791 million, but relied on non-recurring savings to achieve this

**45.** 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.

**46.** NHS NSS's initial financial plan for 2024/25 set out a balanced financial position. Exhibit 4 shows that NHS NSS operated within the three key financial targets set by the Scottish Government.

## Exhibit 4
**Performance against resource limits in 2024/25**

| Financial target | Limit £m | Actual £m | Variance £m |
|---|---|---|---|
| Core revenue resource limit | 665.608 | 665.110 | 0.498 |
| Non-core revenue resource limit | 15.879 | 15.879 | - |
| Transfer from capital funding* | 109.600 | 109.600 | - |
| **Total revenue resource limit** | **791.087** | **790.589** | **0.498** |
| Core capital resource limit | 10.821 | 10.718 | 0.103 |
| Non-core capital resource limit | 109.600 | 109.600 | - |
| Transfer to revenue funding* | (109.600) | 109.600) | - |
| **Total capital resource limit** | **10.821** | **10.718** | **0.103** |
| **Cash requirement** | **767.289** | **767.289** | **-** |

* NHS NSS received £109.6m of CAME funding from the Scottish Government for the SIBSS payments. Under the Government Financial Reporting Manual (FReM), these SIBSS payments of £109.6m represent revenue expenditure and should be accounted for through the Statement of Comprehensive Net Expenditure (SoCNE). NHS NSS was instructed by the Scottish Government to treat the £109.6m CAME funding as core RRL funding for the purpose of preparing the annual report and accounts to match the funding with the accounting treatment of the expenditure.

Source: NHS NSS Annual Report and Accounts 2024/25

**47.** To deliver within the Revenue Resource Limit (RRL) of £791 million NHS NSS relied on non-recurring savings of £12.5 million via estate rationalisation and vacancy management. NHS NSS's resource allocation

for the year included non-recurring funding of £223 million (34 per cent of budget).

**48.** NHS NSS received late allocations from the Scottish Government totalling £3.6 million. The allocations from the Scottish Government were received on a one-off basis and towards the end of the financial year.

**49.** Late funding allocations can hinder effective financial management by creating uncertainty in budgeting, disrupting cash flow and potentially delaying the start of planned programme expenditure. This can slow decision making and reduce the efficiency of resource use. We highlighted in NHS in Scotland 2024 Finance and Performance that the Scottish Government needed to work to provide more certainty for Boards to allow them to effectively manage their budgets.

**50.** NHS NSS worked hard to manage the in-year budget, however it faces significant uncertainty in the future due to the level of non-recurring funding. NHS NSS recognises its reliance on late allocations is unsustainable and has been working with the Scottish Government to increase baseline funding instead of relying on in year allocations. NHS NSS is currently anticipating that an additional £35.7 million will be moved from non-recurring to baseline funding for 2025/26, which would provide greater certainty over future funding.

### NHS NSS achieved savings of £18.3 million in 2024/25 but only £5.8 million were on a recurring basis

**51.** In 2024/25 the Scottish Government required all health boards to plan to deliver at least three per cent recurring savings during the financial year, which for NHS NSS represented recurring savings of £11.4 million.

**52.** NHS NSS achieved £18.3 million of savings and surpassed its own savings target for 2024/25 by £1.8 million, due to additional vacancies within National Services Division (NSD).

**53.** Of the total savings made, £5.8 million were on a recurring basis, which falls short of the £11.4 million (three per cent of baseline budget) target for recurring savings set by the Scottish Government.

**54.** This has been the position for a number of years and in order to deliver a higher level of recurring savings, NHS NSS must look to more significant savings programmes. These are likely to involve redesigning services and will take time to be fully implemented.

### NHS NSS has appropriate internal financial control arrangements in place and actions have been agreed to address our recommendations

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

strengthened and reported these in our interim management letter, which we presented to the Audit and Risk Committee at its meeting in May 2025.

### Recommendation 2

NHS NSS should implement the agreed actions from our management letter.

## Our audit work considered the assurances available over the control environment relating to externally provided services

**56.** Across the NHS in Scotland a number of shared services exist and therefore NHS NSS's control environment includes externally provided services from:

- NHS Ayrshire and Arran for the provision of the National Single Instance eFinancials service
- Elcom who provide Professional Electronic Commerce Online System (PECOS) - the eProcurement system used by NHS Boards across Scotland.

**57.** The NHS in Scotland procures service audits each year to provide assurance on the controls operating within the shared systems. As part of our overall audit approach, we consider the evidence from service auditors to inform our risk assessment procedures.

**58.** NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. There is still an assurance gap for the IT general controls, system backup and disaster recovery which was identified in previous years, but this will be addressed in 2025/26. The assurance gap did not impact on our 2024/25 audit.

**59.** NHS NSS use the PECOS purchase to pay application. The PECOS application is available to all Scottish public sector bodies under the Scottish Government eCommerce shared service license agreement. In November 2024, the hosting arrangements of the PECOS application changed from being held at the Scottish Government's Saughton House data centre to being held and managed externally from the Scottish Government by third-party provider, Elcom.

**60.** While the Scottish Government owns the contractual arrangement with Elcom, it is for individual bodies to assure themselves that there are appropriate application and hosting controls in place at Elcom. NHS NSS has not received any assurances around the operation of these controls at the third-party provider.

**61.** NHS NSS is satisfied that there have been no issues around service performance or availability of information to support the preparation of the financial statements and there is no adverse impact on the system of internal control or governance arrangements in respect of the use of the PECOS application.

**62.** While NHS NSS can rely on local controls over user access and the operation of interfaces, there is an assurance gap over the general IT environment including back up procedures and disaster recovery. NHS NSS should explore how it can gain assurance over the IT arrangements in relation to PECOS.

### NHS NSS is working to strengthen arrangements after the service auditor issued qualified opinions for the payroll service and national IT contract service audits

**63.** NHS NSS procures service audits covering Practitioner Services (primary care payments), payroll services and the national IT services contract.

**64.** The Type II service audit for Practitioner Services provided by NHS NSS, resulted in an unqualified opinion on the controls in place. It concluded that the controls were suitably designed and operated effectively to provide reasonable assurance.

**65.** The national IT services contract Type II service audit resulted in a qualified opinion. Overall, the report confirmed the suitability of the description and design of the controls in place and concluded that they are operating effectively. The control exception relates to logical access to applications, operating systems and databases which did not fully operate during the year.

**66.** The payroll services Type II service audit resulted in a qualified opinion due to two control objectives not operating effectively during the year:

- controls provide reasonable assurance that new employees' data and amendments to existing data that impact payroll values are authorised and entered onto the payroll system
- controls provide reasonable assurance that payroll (including changes to the payroll amount) are processed in a complete, accurate and timely manner and that changes to the payroll amount are authorised.

**67.** As a result of this payroll qualification, we carried out additional substantive testing of new starts, leavers and payroll amendments to gain assurance over the accuracy and completeness of the payroll data. No issues were identified from this work.

**68.** Having considered these qualifications in context of other mitigating controls, and the results of our additional targeted payroll testing, we have

concluded that these issues did not materially impact on the control environment of NHS NSS during 2024/25.

**69.** NHS NSS is responding to the qualified opinions and has plans in place to address the identified weaknesses for 2025/26.

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

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

**71.** NHS NSS has adequate arrangements in place to prevent and detect fraud or other irregularities. Quarterly fraud reports are issued to the Audit and Risk Committee to notify members of any frauds identified. This report also provides updates on fraud related staff training, fraud awareness campaigns, and progress with the National Fraud Initiative (NFI) exercise.

**72.** In 2024/25, we found that a draft Fraud Annual Action Plan was submitted to and approved by the Audit and Risk Committee at its meeting in June 2024. The purpose of the plan is to outline how the NHS Scotland Counter Fraud Strategy is to be implemented during the present financial year. The Audit and Risk Committee has received subsequent progress updates on the plan through the quarterly fraud reports.

**73.** While NHS NSS has generally sound arrangements in place for preventing and detecting fraud, we noted that the current Fraud Management Policy is out of date. Most of the current policy content remains appropriate, however several key contacts listed need to be updated to reflect NHS NSS's current organisational structure. We have been informed that a review of the policy is planned, which we would encourage as the content needs to be accurate to enable the policy to be applied effectively.

#### Recommendation 3

The Fraud Management Policy should be reviewed to ensure the content is accurate and can be applied effectively.

### NHS NSS actively engages in the National Fraud Initiative

**74.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS NSS participates in this biennial exercise. The current NFI exercise began in September 2024 with the final report due to be published in September 2026.

**75.** NHS NSS actively engages in the NFI and regularly reports on progress to the Audit and Risk Committee. The process of reviewing NFI matches is currently in progress, with a deadline of December 2025 for completion. We will continue to monitor NHS NSS's participation and report on the outcome of the current NFI exercise in the 2025/26 Annual Audit Report.

## Financial Sustainability

### Conclusion

NHS NSS continues to maintain a three-year financial forecast which shows a balanced position that is dependent on the achievement of savings and non-recurring funding. The uncertainty created by non-recurring funding streams makes planning for the future more challenging.

### Health boards across Scotland face substantial affordability challenges despite increases in funding

**76.** Health remains the single biggest area of government spending with a planned increase to £19.4 billion in the 2024/25 Budget Bill. The Scottish Government continued to distribute funding throughout the year which increased the final budgets provided to NHS Boards and reflects the long-term trend of annual increases in health expenditure.

**77.** Despite increases in health spending much of the additional funding was consumed by pay deals and inflation leaving little room to invest in transformation or service improvement.

**78.** In their three-year financial plans submitted to the Scottish Government for 2024/25, NHS Boards continued to forecast increases in spending. Boards are also increasingly citing a reliance on non-recurring savings, and therefore carrying forward underlying deficits into future years, which poses a significant risk to long term financial sustainability.

**79.** Audit Scotland's NHS in Scotland 2024 Finance and Performance report highlights that the affordability of healthcare spending is now an urgent issue that the Scottish Government must address. Difficult decisions need to be made about transforming services potentially identifying areas of limited clinical value and considering how services can be provided more efficiently or withdrawn. Boards should work with the Scottish Government to focus on longer term reform. This will be essential for managing the demands placed on the healthcare system and ensuring its future sustainability.

### NHS NSS continues to maintain a three-year financial forecast which shows a balanced position that is dependent on the achievement of £40 million Cash Releasing Efficiency Savings

**80.** NHS NSS presented an updated three-year financial plan for 2025/26-2027/28 to the Board in March 2025. This forecasts a balanced budget for a three-year period, however, it is dependent on further efficiency savings being achieved and an ongoing reliance on non-baseline funding.

**81.** The 2025/26 financial plan projects that NHS NSS will over-achieve on the Cash Releasing Efficiency Savings (CRES) by £2.4 million with 3.3 per cent of this being achieved on a recurring basis. This is mainly due to savings arising from staff vacancies across the directorates.

**82.** The budget for National Services Division (NSD) of £345 million (28 per cent of total budget) is ring-fenced, therefore the delivery of savings target of three per cent is out with NHS NSS's control due to the nature of the expenditure (i.e. commissioned services delivered by territorial health boards). Despite this, NSD continues to facilitate collaboration between NHS Boards and service users across NHS Scotland to minimise additional funding requirements.

**83.** The financial plans for 2026/27 and 2027/28 highlight that NHS NSS still needs to identify further savings of £1.9 million and £3 million respectively, on a recurring basis in order to meet the Scottish Government's target of three per cent. NHS NSS should continue to actively explore further cost-reduction measures to ensure financial balance is achievable into the future. The identification of further savings will continue as future budget allocations are confirmed.

### Almost a third of NHS NSS's funding is non-recurring and this makes planning for the future more challenging

**84.** In the 2025/26 financial plan, 31 per cent of NHS NSS's budgeted funding is classified as non-recurring. A similar position has been forecast for 2026/27 and 2027/28. This highlights a significant reliance on one-off financial support to maintain service delivery. Without stable, recurring funding from the Scottish Government, it is challenging for NHS NSS to commit to long term service redesign and invest in transformational change. The continued dependence on non-recurring funding constrains NHS NSS to implement strategic change in future years.

### NHS NSS has developed a five-year capital plan to prioritise capital projects, but current funding is not sufficient to maintain service provision

**85.** NHS NSS presented a capital plan covering 2025/26 to 2029/30 to the Board in March 2025, which outlined total expenditure of £159 million over five years.

**86.** The capital plan sets out the capital investment required to maintain the estate and asset base, and to provide service continuity. The plan

identified up to £6.6 million to invest in priority projects in 2025/26, following a risk-based scenario planning session undertaken as part of the financial planning process.

**87.** The plan highlights that there is a significant level of funding that still needs to be confirmed from 2026/27. The lack of secured funding limits NHS NSS's ability to proceed with planned projects.

## Vision, Leadership and Governance

### Conclusion

NHS NSS has a clear vision and strategy and arrangements to enable the delivery of the vision, strategy and priorities. This is supported by appropriate and effective governance arrangements.

NHS NSS will need to work closely with NHS Education for Scotland to manage the transfer of functions to the new NHS Delivery body from 1 April 2026, and to support the transition for staff and service users.

### NHS NSS has a clear vision and strategy and arrangements to support the delivery of the vision, strategy and priorities

**88.** The NHS NSS Strategic Framework 2024-2026 sets out a clear purpose which is: "to provide national solutions to improve the health and wellbeing of the people of Scotland". This is supported by a number of objectives with a focus on three key themes of Service Excellence, Financial Sustainability, Workforce Sustainability and Climate Sustainability.

### Governance arrangements remain appropriate and effective

**89.** NHS NSS's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

**90.** Papers and minutes for Board meetings, including financial and performance information, are available on NHS NSS's website. Hybrid arrangements are in place for Board and committee meetings and, as part of the commitment to openness and transparency, members of the public may attend Board meetings. A broad range of reports of good quality are submitted to these meetings. These include regular reports concerning performance, finance and risk management.

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

## NHS Scotland's governance arrangements need to be strengthened to deliver the scale of reform needed across the health service

**92.** In May 2025, the Auditor General for Scotland issued a report titled 'NHS in Scotland: Spotlight on governance'. This found that NHS boards' ability to drive reform is constrained by the financial, policy and planning parameters set by the Scottish Government.

**93.** The report included some recommendations for the Scottish Government and NHS Boards to work together on. These related to:

- considering how the experience of under-represented groups can be brought to boards
- implementing an external review and validation of the Blueprint for Good Governance self-assessment process
- ensuring that the next iteration of the Blueprint for Good Governance provides more support on how good governance can support NHS reform and collaborative working.

**94.** NHS NSS should consider the findings of the report and respond in collaboration with the Scottish Government and other health boards.

## NHS NSS has finalised its cyber security strategy

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

**96.** In previous years we recommended that NHS NSS could enhance its arrangements by developing a cyber strategy and ensure that work is ongoing to minimise the risk, and potential impact, of future cyber-attacks.

**97.** In 2024/25 we found that a cyber security strategy was submitted to, and approved by, the Audit and Risk Committee in September 2024. This sets out the approach to protecting the data NHS NSS controls and processes, the systems operated, and its staff from the threat of cyber-attacks. This addresses our prior year recommendation.

**98.** NHS NSS has a critical role in delivering national systems, therefore the importance of a comprehensive cyber incident response plan is essential to ensure operational resilience and the ability to respond effectively to cyber threats. A cyber incident response plan is being developed from a national perspective to enhance the current arrangements.

## Progress on the refreshed IT strategy has been delayed

**99.** NHS NSS has a very important role in NHS Scotland in providing national systems and infrastructure. It is essential that NHS NSS has an IT strategy in place to outline key priorities in this area going forward.

**100.** Based on the findings from our prior year audit we expected a new IT strategy to be developed in quarter one of 2024/25. The strategy refresh has been delayed as NHS NSS took the decision to produce an IT strategy for each of the directorates independently, as well as an overarching IT strategy for NHS NSS.

**101.** We have been advised that five-year digital roadmaps have been prepared by each of the directorates as part of the budget planning process. These have been consolidated, and will form the basis of an overarching IT strategy. NHS NSS should prioritise the completion of the IT strategy as delays in doing so risks misalignment of IT operations and missed opportunities for strategic improvement.

### Recommendation 4

NHS NSS should prioritise the completion of its IT strategy to ensure that investment in IT related infrastructure and services is clearly defined and aligned with NHS NSS's strategic objectives.

## NHS NSS will need to work closely with NHS Education for Scotland to manage the transfer of functions to the new NHS Delivery body from 1 April 2026, and to support the transition for staff and service users

**102.** On 17 June 2025 the Cabinet Secretary for Health and Social Care made a statement to the Scottish Parliament on Delivering Reform and Renewal for Health and Social Care. The "Service Renewal Framework" recognises that to meet the ambition of service renewal and address the health and care needs of our population, there is a need to work differently. As part of this framework NHS NSS will come together with NHS Education for Scotland to create a new single body called NHS Delivery from 1 April 2026.

**103.** As with any change on this scale, the transfer of NHS NSS's functions to the new NHS Delivery body may create significant uncertainty for the organisation in the short term, both in relation to the delivery of its strategic objectives and the impact on employees. NHS NSS should work closely with NHS Education for Scotland to manage the transfer of functions to NHS Delivery from 1 April 2026, and to support the transition for staff and service users.

## Use of Resources to Improve Outcomes

### Conclusion

NHS NSS has appropriate performance monitoring arrangements in place to track progress against its delivery plans.

NHS NSS is managing a significant risk over the capacity of its payroll service that delivers payments to 80,000 staff across several health boards.

### NHS NSS has appropriate performance monitoring arrangements in place

**104.** In 2024/25, Scottish Government requested NHS NSS produce a draft one-year and three-year delivery plan. The delivery plans are aligned to the NHS NSS strategic framework and provide some detail on how the framework will be implemented.

**105.** NHS NSS continues to utilise Integrated Performance Reports, which are reported to the board on a quarterly basis. These integrated reports summarise performance against the deliverables detailed in the one-year and three-year delivery plans. Regular performance reporting at NHS NSS demonstrates that outcomes are being appropriately managed, challenged and escalated as necessary.

**106.** The 2024/25 one-year plan included 42 deliverables, and the year-end position reported 38 (or 90 per cent) of NHS NSS's deliverables are complete or on track to be completed within timescales.

### Workforce indicators reported in 2024/25 demonstrate improvement

**107.** A new three-year workforce plan 2024-27 was approved by the NSS Staff Governance Committee in September 2024. It sets out key deliverables to support recovery, growth and transformation of services and the workforce. The revised plan aligns with the NSS three-year delivery plan for 2024-2027. Performance against the deliverables is managed through the workforce performance indicators which are assessed as part of the Integrated Performance Report.

**108.** The year-end Integrated Performance Report highlighted:

- sickness absence has increased marginally in year to 4.37% (2023/24: 4.26%)
- turnover has decreased in year to 7.93% (2023/24: 9.6%).

## NHS NSS is managing a significant risk over the capacity of its payroll service that delivers payments to 80,000 staff across several health boards

**109.** NHS NSS has brought a risk to the attention of the Audit and Risk Committee that the payroll service could be unable to deliver timely and effective payroll services for health boards and staff. This is due to the increasing demands placed on payroll staff to maintain the delivery of weekly and monthly payments to 80,000 staff using legacy technologies, while progressing organisational change, managing new demands and implementing service improvements. The potential impact of the payroll service failing is significant as it could impact on the timing of payments to staff.

**110.** A "Transformation Programme Plan" has been put in place which includes controls, programme management and action plans to develop the payroll service. The management of this risk will be monitored through the quarterly risk reports presented to the Audit and Risk Committee and the Board.

## NHS NSS has appropriate arrangements in place to secure Best Value, including appropriate and effective best value framework

**111.** The audit work performed on the arrangements the body has in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by:

- NHS NSS having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements
- the arrangements NHS NSS has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value
- progress NHS NSS is making to embed sustainability into corporate and operational plans and enhance reporting arrangements around sustainability.

# Appendix 1

## Action plan 2024/25

### 2024/25 recommendations

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|---|---|---|
| **1. Outward secondees**<br><br>NHS NSS has a number of staff on secondment to either Scottish Government or other boards. These staff remain on NHS NSS's payroll and are classified as 'Outward Secondees' in the Remuneration Report.<br><br>Risk – NHS NSS is exposed to employment risks and may not be achieving Best Value from these arrangements. | The employment arrangements of employees seconded to long term positions within Scottish Government or other boards should be reviewed. | **Accepted**<br><br>Processes surrounding secondments have been significantly strengthened in 2024/25 including a central register for all secondments collated and a requirement that all new secondment agreements must be approved by the Director of HR and Workforce Development.<br><br>Engagement with the Scottish Government Chief People Officer was effected during 2024/25, who is supporting NHS NSS efforts to reduce the scale of long-term secondments.<br><br>Progress is expected to continue during 2025/26 however this is likely to be an ongoing project due to the requirement for the Scottish Government to agree each updated new arrangement.<br><br>**Responsible officer:**<br><br>Director of HR and Workforce Development<br><br>**Agreed date:**<br><br>Ongoing exercise due to length of legacy agreements. |

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|---|---|---|
| **2. Control environment**<br>In our management letter we identified a number of opportunities for NHS NSS to strengthen the control environment.<br>Risk – Weaknesses in the control environment can increase the likelihood of fraud or error in the system. | NHS NSS should implement the agreed actions from our management letter. | **Accepted**<br>An action plan has been agreed as per the management letter issued the Audit and Risk Committee in May 2025.<br>**Responsible officer:**<br>Associated Director: Finance Operations<br>**Agreed date:**<br>As per the Management letter issued in May 2025 |
| **3. Fraud Management Policy**<br>The Fraud Management Policy is out of date. Our review highlighted that most of the policy content remains appropriate but the key contacts need to be updated to reflect NHS NSS's current organisational structure.<br>Risk – the Fraud Management Policy cannot be applied effectively. | The Fraud Management Policy should be reviewed to ensure the content is accurate and can be applied effectively. | **Accepted**<br>The update of this policy is in progress and will be brought through appropriate governance for approval and issue.<br>**Responsible officer:**<br>Associated Director: Finance Operations<br>**Agreed date:**<br>31 December 2026 |
| **4. Refreshed IT Strategy**<br>In our prior year audit, we were advised by officers that the IT strategy was due to be developed in Q1 of 2024/25. This was delayed as NHS NSS took the decision to produce an IT strategy for each of the directorates independently, as well as an overarching IT strategy.<br>Risk – Misalignment of IT operations and missed opportunities for strategic improvement in the absence of an IT strategy. | NHS NSS should prioritise the completion of its IT strategy to ensure that investment in IT related infrastructure and services is clearly defined and aligned with NHS NSS's strategic objectives. | **Accepted**<br>Current strategy to be extended to end of FY 2026 whilst strategy is updated to include plans from NSS Directorates and to align with OneNSS and DaS Target Operating Model.<br>**Responsible officer:**<br>Director of Digital and Security<br>**Agreed date:**<br>31 March 2026 |

## Follow-up of prior years recommendations

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|---|---|---|
| **5. Insufficient working papers to support key account areas**<br><br>Significant additional audit work was required to obtain sufficient evidence that the balances for the “Assets under Development” and “Assets under Construction” categories within the Intangibles and Tangibles notes were complete and appropriate.<br><br>Further, due to staff changes, there was insufficient audit evidence to support the judgement on the impact of PFI accounting changes.<br><br>Risk – Balances are misstated as there are insufficient records held to confirm the accuracy and completeness of the balances and the key management judgements. | Management should ensure all judgements are sufficiently evidenced and review the working papers for AUD/AUC account balances to ensure they have the necessary details to confirm the accuracy and completeness.<br><br>Responsible officer: Associate Director: Finance Operations<br><br>Agreed date: 31 March 2025 | **Implemented**<br><br>The working papers presented for audit were of a good standard and a notable improvement has been made compared to the prior year. |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|---|---|---|
| **6. Annual report and accounts preparation and audit delays**<br><br>We continue to experience significant delays in receiving some supporting information, working papers and responses to audit requests.<br><br>Risk – There is a risk to the delivery of the external audit of the annual report and accounts. | NHS NSS should work with the external audit team to identify the specific areas where significant delays were experienced and work with relevant finance staff to clarify expectations.<br><br>Responsible officer; Associate Director: Finance operations<br><br>Agreed date: 31 March 2025 | **Work in progress**<br><br>The quality of working papers was good overall with many received by the audit start date of 7 May. A small number of papers were only made available during the audit following requests for this information. We are pleased to note there was an improvement in the timeliness of responses to audit queries compared to the prior year.<br><br>We will continue to work with management to identify ways to achieve efficiencies for future audit years.<br><br>**Responsible officer:**<br><br>Associated Director: Finance Operations<br><br>**Agreed date:**<br><br>31 March 2026 |
| **7. Control environment**<br><br>In our management letter we identified a number of opportunities for NHS NSS to strengthen the control environment.<br><br>Risk – Weaknesses in the control environment can increase the likelihood of fraud or error in the system. | NHS NSS should implement the agreed actions from our management letter to strengthen the overall controls environment.<br><br>Responsible officer: Associate Director: Finance Operations<br><br>Agreed date: 31 March 2025 | **Work in progress**<br><br>Recommendation 2 above. |
| **8. Cyber-Attack Strategy**<br><br>NHS NSS is developing its cyber strategy and working to improve its IT infrastructure.<br><br>Risk – Cyber-attack continues to be a threat to NHS NSS and other public bodies. | NHS NSS should continue to develop its cyber strategy and ensure that work is ongoing to minimise the risk, and potential impact, of future cyber-attacks.<br><br>Responsible officer: Director of NSS Digital and Security<br><br>Agreed date: 31 March 2024 | **Implemented**<br><br>A cyber security strategy was submitted to and approved by the Audit and Risk Committee in September 2024. |

# Appendix 2

## Summary of misstatements

| Details | Financial statements lines impacted | Statement of Comprehensive Net Expenditure (SoCNE) | | Statement of Financial Position (SoFP) | |
|---|---|---|---|---|---|
| **Adjusted misstatements** | | **Dr** | **Cr** | **Dr** | **Cr** |
| | | **£000** | **£000** | **£000** | **£000** |
| HMRC decision on VAT treatment | | | | | |
| | Accrual | | | | (489) |
| | Provision | | | 2,227 | |
| | Net I&E | | (1,738) | | |
| **Net impact on financial statements** | | | **(1,738)** | **1,738** | |
| **Audit adjustments in disclosures** | | | | | |
| Note 2a and 7d have been amended to show the funding transfer instructed by Scottish Government (see Exhibit 2 item 3). | | | | | |
| **Uncorrected misstatements in disclosures** | | | | | |
| Note 6 Intangible Assets: £0.5 million misclassification between IT software and software licence. | | | | | |
| SoFP and Note 7a/16: £2.1m misclassification between PPE and ROU assets. | | | | | |

# Appendix 3

## Supporting national and performance audit reports

| Report name | Date published |
|---|---|
| **Health reports** | |
| NHS in Scotland 2024: Finance and performance | 3 December 2024 |
| General practice: Progress since the 2018 General Medical Services contract | 27 March 2025 |
| NHS in Scotland: Spotlight on governance | 28 May 2025 |
| **Integration Joint Board reports** | |
| Integration Joint Boards: Finance and performance 2024 | 25 July 2024 |
| Integration Joint Boards: Finance bulletin 2023/24 | 6 March 2025 |
| Integration Joint Boards finances continue to be precarious | 6 March 2025 |
| **Other reports** | |
| Local government budgets 2024/25 | 15 May 2024 |
| The National Fraud Initiative in Scotland 2024 | 15 August 2024 |
| Scotland's colleges 2024 | 19 September 2024 |
| Transformation in councils | 1 October 2024 |
| Alcohol and drug services | 31 October 2024 |
| Fiscal sustainability and reform in Scotland | 21 November 2024 |
| Public service reform in Scotland: how do we turn rhetoric into reality? | 26 November 2024 |
| Auditing climate change | 7 January 2025 |
| Local government in Scotland: Financial bulletin 2023/24 | 28 January 2025 |
| Transparency, transformation and the sustainability of council services | 28 January 2025 |
| Sustainable transport | 30 January 2025 |
| Additional support for learning | 27 February 2025 |

# NHS National Services Scotland

## 2024/25 Annual Audit Report

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