

Healthcare Improvement Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Healthcare Improvement Scotland and the Auditor General for Scotland

June 2024

Contents

Key messages	3
Introduction	4
1. Audit of 2023/24 annual report and accounts	6
2. Financial management and sustainability	11
3. Vision, leadership and governance	17
4. Use of resources to improve outcomes	20
Appendix 1. Action plan 2023/24 and prior year follow up	22
Appendix 2. Summary of uncorrected misstatements	27

Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified i.e. the financial statements and related reports are free from material misstatement.
- 2 There were no material adjustments made to the annual report and accounts as a result of the audit process.

Financial management and sustainability

- 3 There are effective and appropriate arrangements to secure sound financial management. HIS operated within its revised Revenue Resource Limit.
- 4 HIS has a five-year financial plan for 2023/24 to 2027/28 which demonstrates that significant savings are required to achieve financial balance over the medium term.

Vision, leadership and governance

- 5 HIS have a clear vision and strategy as set out in their 2023-28 Strategy.
- 6 There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board and to ensure delivery of plans.
- 7 HIS have effective and appropriate arrangements in place for vision, leadership and governance.

Use of resources to improve outcomes

- 8 There are effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.
- 9 There is a newly developed best value framework in place with the first report to be presented in August 2024.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Healthcare Improvement Scotland. The scope of the audit was set out in the Annual Audit Plan presented at the March 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Healthcare Improvement Scotland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management and Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

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

Audit appointment

3. Claire Gardiner has been appointed by the Auditor General as auditor of Healthcare Improvement Scotland for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of her five-year appointment.

4. We would like to thank Board members, Audit and Risk Committee members executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. Healthcare Improvement Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that is in accordance with the accounts direction from the Scottish Ministers. Healthcare Improvement Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The independent appointed auditor's responsibilities are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified in this report are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve the management of Healthcare Improvement Scotland from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor independence

9. The audit team have complied with the Financial Reporting Council's Ethical Standard. The audit team have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £36,780, as set out in the 2023/24 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. The annual audit adds value to Healthcare Improvement Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability, and
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare an annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified i.e. the financial statements and related reports are free from material misstatement.

There were no material adjustments made to the annual report and accounts as a result of the audit process.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for Healthcare Improvement Scotland (HIS) for the year ended 31 March 2024 on 25 June 2024. As reported in the independent auditor's report:

- give a true and fair view of the state of the board's affairs as at 31 March 2024 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM;
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £881,000

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£881,000
Performance materiality	£661,000
Reporting threshold	£44,000

Source: Audit Scotland

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

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality. This has been informed by our planning work which did not identify any significant issues and reflect the lack of historical / prior year errors in the HIS accounts.

16. It is our responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with the Board.

Significant findings and key audit matters

17. Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including my view about the qualitative aspects of the Board's accounting practices.

18. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

19. There are no significant issues to report from the audit.

20. In line with normal audit practice presentational and disclosure issues were discussed and agreed with management. We are satisfied that amendments made to the accounts are appropriate.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. The audit team have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan; summarises the further audit procedures performed during the year to obtain assurances over those risks; and the conclusions from the work completed.

Exhibit 2

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

Audit risk	Audit Response	Conclusion
<p>Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>Due to the nature of this risk assurances from management are not applicable in this instance.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries, focusing on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments throughout the year and tested where appropriate.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<p>Satisfactory</p> <p>The completion of the assurance procedures (audit response) did not identify any evidence of management override of controls.</p> <p>Audit procedures did not identify any errors or instances of transactions outside the normal course of business.</p> <p>NSS (NHS National Services Scotland) provide a range of financial services to HIS as set out in the annual Service Level Agreement.</p> <p>Key officers involved in the financial reporting process, including NSS officers provided assurance that they had not identified any instances of inappropriate or unusual activity.</p>

Audit risk	Audit Response	Conclusion
	Substantively tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.	

Source: 2023/24 HIS Annual Audit Plan / Audit Scotland

There were two identified misstatements within the financial statements

22. The audit team identified two misstatements which were not corrected by management in the audited annual report and accounts.

- Pension and National Insurance costs of £106,000 were not included in the annual leave accrual for staff.
- Other payables included £158,000 for the future credit risk provision. This should instead be offset against trade receivables.

23. We considered the size, nature, and circumstances leading to the uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

24. From our review of the accounting policies we noted that there was a lack of impairment review of non-current assets and we have made a recommendation below and included it in our action plan in [Appendix 1](#).

Recommendation 1: Impairment review of non-current assets

No impairment review for non-current assets was conducted in 2023/24 and has not been carried out for several years. We would recommend that non-current assets are reviewed annually for impairment, in particular for material assets.

The unaudited annual report and accounts were received in line with the agreed timetable

25. The unaudited annual report and accounts were received in line with the agreed audit timetable on 8 May 2024. Officers provided good support to the new audit team and good working relationships have been quickly established. This helped ensure that the audit of the annual accounts process ran smoothly.

26. The unaudited accounts received for audit were adequate however we feel some internal control processes could be improved including a stand-back review prior to submitting the accounts to audit. A wash up meeting will be held

to learn from one another to further improve processes and efficiencies for the remaining audit appointment.

202/23 (prior year) recommendations have been actioned

27. HIS has made substantial progress in implementing the prior year (2022/23) audit recommendations. All actions have been implemented or are substantially underway, as summarised in [Appendix 1](#).

2. Financial management and sustainability

Financial management means having sound budgetary processes; the ability to understand the financial environment; and whether internal controls are operating effectively.

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

There are effective and appropriate arrangements to secure sound financial management. HIS operated within its revised Revenue Resource Limit.

HIS has a five-year financial plan for 2023/24 to 2027/28 which demonstrates that significant savings are required to achieve financial balance over the medium term.

HIS operated within its revised Revenue Resource Limit (RRL) of £41.7 million

28. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. [Exhibit 3](#) shows that HIS operated within its revised limits during 2023/24 which resulted in a breakeven position at the year-end.

Exhibit 3

Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Original resource limit £000	Revised resource limit £000	Actual expenditure £000	(Over) / Underspend £000
REVENUE				
Core revenue resource limit	40,905	40,925	40,925	(0)
Non-core revenue resource limit	819	819	819	0
Total revenue resource limit	41,724	41,743	41,743	(0)

Performance against resource limits set by SGHSCD	Original resource limit £000	Revised resource limit £000	Actual expenditure £000	(Over) / Underspend £000
CAPITAL				
Core capital resource limit	83	83	83	0
Non-core capital resource limit	0	0	0	0
Total capital resource limit	83	83	83	0
Cash requirement	41,724	83	41,743	(0)

Source: HIS 2023/24 annual report and accounts

Budget processes were appropriate

29. In March 2023 HIS presented its 2023/24 budget and five year plan 2023/24 to 2027/28 to the Audit and Risk Committee (ARC). The 2023/24 budget of £41.7 million included:

- HIS' baseline funding allocation of £33.6 million
- Independent Healthcare additional funding allocation of £7.4 million
- Recurring savings initiatives of £1.6 million (4.8%).

30. The covering paper to the Committee highlighted a number of risks and challenges to be met by HIS in order to achieve a balanced budget including unfunded pay awards, uncertainty on allocation funding, confidence on achieving recurring savings, funding for Independent Healthcare, and inflation. Attention was drawn to the fact that if these assumptions crystallised, they would materially impact HIS' financial position in 2024/25. These challenges are not uncommon across the wider NHS landscape.

31. Members and officers at HIS are active in monitoring the budget. Management information on financial performance and budget monitoring is presented at Board and ARC meetings and is clear.

32. From our review of the papers, we found that:

- Information is presented for both full-year forecasts and year-to-date actual figures vs budget.
- High-level figures on income, pay expenditure and non-pay expenditure against budget are included.
- Assumptions used in making forecasts are clearly set out.
- Annual forecasts are updated in-year.

- A more detailed analysis of pay and non-pay expenditure is included.
- There is analysis of whole-time-equivalent staff numbers.
- Allocations and grants are shown in detail.
- A breakdown of progress against savings targets is included, showing where savings are coming from.
- Clear descriptions are included throughout, with key issues highlighted and variances explained.

33. More details on governance and scrutiny are in [Section 3: Vision Leader and Governance](#) of this report.

HIS has appropriate financial control arrangements in place

34. Our objective is to gain assurance that HIS has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our audit is not controls based and, with the exception of the control related to journal entry authorisation, we have not placed reliance on controls operating effectively as our audit is substantive in nature.

35. In addition to HIS' own systems of internal control, NSS provide a range of financial services to HIS under a service level agreement (SLA). The SLA details the processes and controls operated by NSS on HIS' behalf, separate to its own processes and controls. We reviewed the SLA and noted one area for clarification / improvement below.

36. From our routine and normal audit work carried out during 2023/24, we found no significant issues with financial control arrangements in HIS. There are a number of recommendations we have noted below for management's attention, and these have also been included in the action plan at [Appendix 1](#).

Recommendation 2: Service Level Agreement

The 2023/24 SLA for financial services between NHS National Services Scotland (NSS) and HIS is dated 21 March 2024 and was not signed until April 2024. This means that there was not a mechanism in place to ensure accountability of the service provider during the 2023/24 financial year. Going forward HIS should ensure formalised SLA documents are in place in advance of the service period.

Recommendation 3: Establishment checks

We noted an establishment check of the workforce has not been recently carried out. An establishment check should be performed at least once per year. The output should be checked and reviewed by an appropriate staff member to ensure the completeness and existence of the workforce.

Recommendation 4: Review of non-current asset useful lives

From our review of the accounting policy, we found that the majority of IT, plant and machinery and software licence assets have been used for significantly longer than their designated useful life. We recommend that HIS review their accounting policy and consider allocating longer useful lives for assets in these categories. Consideration should also be given whether it is necessary to include a separate note for intangible assets given that the NBV is zero.

Recommendation 5: IT back up

Evidence / confirmation should be obtained from Atos (the service provider) that routine back-ups of the general ledger have been taken and tested. This is to ensure the integrity of the system and the ability to recreate the general ledger in the event of a failure.

HIS work with other NHS boards to deliver their services

37. HIS work with other NHS boards for:

- Procurement: Scottish Ambulance Service lead with an SLA in place
- IT / Digital: Outsourced service to NHS Ayrshire & Arran who host the system (Zendesk); National digital platform with NSS;
- Various financial systems: Outsourced to NSS with an SLA in place
- NSS hosting the website from 2023/24

Service auditor reports

38. HIS receive annual service auditor reports from NHS Scotland on financial ledger (eFinancials), payroll and general IT systems (the IT infrastructure). The reports are presented at ARC annually and help support the various assurances over the systems above.

39. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The 2023/24 service auditor assurance reporting in relation to the NSI eFinancials was unqualified. However, the assurance gap identified last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

40. For the national IT services contract the Type II service audit resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective, *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year. This remains a risk however it did not impact on our 2023/24 audit.

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

41. The Code of Audit Practice requires auditors to report on the adequacy of the arrangements for preventing and detecting fraud or other irregularities as part of the wider-scope audit.

42. In the public sector there are specific fraud risks, such as those relating to grants and other claims made by individuals and organisations. 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.

43. HIS has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

44. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. HIS participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final report is due to be published in summer 2024.

45. HIS has actively participated in the recent NFI exercise. We concluded that HIS had satisfactory arrangements in place to submit NFI data and investigate any potential frauds.

HIS has prepared a medium term financial plan

46. The significant cost pressures already experienced by public bodies are likely to continue into the foreseeable future. As highlighted in Audit Scotland's [NHS in Scotland 2023](#) report, the financial position is concerning across the health sector, despite the health budget increasing in real terms since 2013/14. A range of financial pressures are presenting a significant challenge for all health boards but those impacting HIS in particular are inflation and recurring pay pressures.

47. A five year financial plan was prepared for 2023/24 to 2027/28 and presented to the Board and ARC in March 2023. Forecasts used in the financial plan are based on several assumptions including:

- Scottish Government funding uplift of 2% per year
- Staff wage inflation of 5%
- Fixed costs inflation of 5%
- No increase in Independent Healthcare allocation funding.

48. There is £6.2 million of recurring savings required over the next five years from the position at the time of drafting the five year plan to achieve financial balance. This is the equivalent of a decrease in total whole time equivalent staff from 547 in 2024/25 to 483 by 2028, a decrease of 12%. Under the plan, a

recurring saving of £1 million to £1.3 million (3% - 3.8%) per year would be required to maintain a balanced budget.

49. For 2024/25 HIS received a £0.2 million (0.6%) increase in their allocation which is significantly below inflation. The organisation is looking at which activities can be halted however the scope to reduce spend is limited by the high proportion of staff costs and the 'no redundancy policy' across the NHS.

50. HIS are taking actions to reduce spending in line with their allocated budget. HIS are aware programmes will be required to be wound down or not commence to achieve savings, a vacancy freeze is being implemented and non-essential items (travel events) have been halted.

51. There are significant challenges ahead for HIS and the wider public sector in the medium to long term. HIS have drafted budgets and plans reflecting these challenges and these are revisited routinely at Board and ARC meetings adjusting as required and responding to new and changing information and metrics. We review financial sustainability annually as part of our wider dimension work and will continue to do so throughout the audit appointment. Financial sustainability is widely recognised as a significant risk in HIS. We are satisfied HIS recognises the extent of the challenge and are planning appropriately.

3. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

HIS have a clear vision and strategy as set out in their 2023-28 Strategy.

There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board and to ensure delivery of plans.

HIS have effective and appropriate arrangements in place for vision, leadership and governance.

HIS have a clear vision and strategy as set out in their 2023-28 Strategy

52. In March 2023 HIS published their new strategy: Leading quality health and care for Scotland: Our Strategy 2023-28. The strategy clearly outlines who HIS are, what they do, and that a key part of their role is working with stakeholders including health boards and other national organisations for the safe delivery of effective care across Scotland.

53. The strategy's vision is supported by four aims and ambitions focussed on, and linked to, the delivery of improved outcomes for people and communities. This is also reflected in the values as stated in the Strategy. These priority areas and progress and achievement(s) against them are included in the Performance Analysis section of the 2023/24 annual report and accounts.

54. We reviewed HIS' new strategy alongside its approach to IT strategic planning and service delivery. The key IT strategy documents at HIS include:

- ICT Review Summary (Digital Strategy), produced September 2020
- Business Case for IT Investment produced January 2023.

55. The ICT Review Summary document includes key characteristics of a good digital strategy, but there is a significant reliance on the Business Case for IT Investment. There is an opportunity to develop the ICT Review Summary into an overarching digital strategy by incorporating the planned investment, governance arrangements, workforce considerations and reporting

arrangements from the Business Case. This would help to increase the awareness of these areas for staff and wider stakeholders. Having a single overarching strategy document would also drive greater coherence between the digital strategy and the Corporate Plan.

56. There remain resourcing challenges within the digital team overall and this is also impacting the ability to deliver national Network Information Security (NIS) recommendations. Despite repeated recruitment campaigns in the last few years, HIS have been unable to successfully recruit. Contractors have been utilised but HIS recognise this is not a solution for the longer term. Budget has been allocated for 2024/25 to address the issue and we will consider progress as part of our 2024/25 audit work.

Recommendation 6: Digital strategy

The ICT Review Summary could be developed into an overarching Digital Strategy by incorporating details from the Business Case for IT Investment. A single overarching strategy document would also provide greater coherence between the digital strategy and the Corporate Plan.

Governance and scrutiny arrangements are effective and appropriate

57. HIS' governance arrangements have been set out in the Governance Statement in the 2023/24 annual report and accounts. These have been reviewed and we have concluded that the arrangements are effective and appropriate.

58. We attended all ARC meetings during 2023/24 and observed good scrutiny, challenge and deep dives by the members into risk register items of significance. The ARC is also attended by the Chair of the Board providing a good link to the Board. The committees and Board are well attended by all members.

59. The format of the management information allows those charged with governance to have oversight of key issues facing HIS, such as staffing levels, funding, and achieving savings targets.

60. All members are afforded an opportunity to participate and share views. Members are engaged and operate in an open and transparent manner. Agenda and papers are provided in a timely fashion well in advance of each meeting. At each ARC, it is clear the agendas and papers have been read and have been considered prior to the meetings resulting in effective and impactful scrutiny.

61. We observed good debate and questions including fraud in the NHS (this included a presentation on fraud from NHS Scotland); there were key conversations on digital and the organisation's ability to respond to ever increasing digital challenges such as workforce, cyber and ransomware attacks. There was also member engagement, understanding and involvement with national NIS requirements.

62. There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board and to ensure delivery of plans. We conclude that HIS have effective and appropriate arrangements in place for vision, leadership and governance.

4. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

There are effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

There is a newly developed best value framework in place with the first report to be presented in August 2024.

HIS has appropriate arrangements for performance monitoring and reporting

63. Performance is publicly reported through Board and other committee papers. Performance reports have been considered by Quality and Performance Committee (QPC) regularly throughout 2023/24. We reviewed the reports presented to the QPC and found that the performance information is clear and 'tells the story'. The reports are prepared and presented by the Director of Finance, Planning and Governance. They highlight key points for attention as well as progress against key priorities. Annual delivery plans are used to inform progress as well.

64. Consideration is also given to demonstrating value for money and outcome reporting. Areas reviewed by HIS during 2023/24 include Citizens' Panel, Scottish Health Technology Group, and Death Certification Review Service. Emerging risks are also flagged in the reports including reasons for the risk and uncertainties going forward which mainly relate to staffing capacity and funding. Overall there is evidence that HIS are meeting and in some cases improving against their performance targets.

HIS is developing its approach to reporting best value

65. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

66. During 2023/24 HIS introduced a best value / value for money assessment as part of their quarterly performance reporting. At the time of drafting this annual audit report, HIS' annual best value report was being drafted.

67. These new reports will now form part of HIS' Quality and Performance Committee's business schedule. The Committee are due to consider the initial best value report at their August 2024 meeting.

68. The annual best value report and associated performance reporting was raised as a recommendation by external audit in 2022/23 and is being developed and due to be presented in August 2024 (refer [Appendix 1, follow up of prior year recommendations](#)). We will review and report on best value annually as part of our audit appointment and wider dimension requirements.

69. We conclude that there are effective and appropriate arrangements in place for the use of resources.

Appendix 1. Action plan 2023/24 and prior year follow up

2023/24 recommendations

Issue / risk	Recommendation	Agreed management action / officer / timing
<p>1. Impairment review of non-current assets</p> <p>There has been no impairment review for non-current assets conducted in 2023/24 and one has not been carried out for several years.</p>	<p>Non-current assets should be subject to an annual impairment review, in particular for material assets (refer paragraph 23).</p>	<p>Accepted: We are in agreement with this suggestion and will look to implement an annual impairment review of non-current assets.</p> <p>Responsible officer: Director of Finance, Planning & Governance</p> <p>Agreed date: March 2025</p>
<p>2. Service Level Agreement (SLA)</p> <p>The 2023/24 SLA for financial services between NHS National Services Scotland (NSS) and HIS is dated 21 March 2024 and was not signed until April 2024.</p> <p>This means that there was not a mechanism in place to ensure accountability of the service provider during the 2023/24 financial year.</p>	<p>HIS should ensure formalised SLA documents are in place in advance of the service period (refer paragraph 35).</p>	<p>Accepted: The SLA is driven by NSS as the lead service provider and is an annual rolling agreement. We agree to work with NSS to ensure our finance and payroll SLA is signed earlier in the year in question.</p> <p>Responsible officer: Director of Finance, Planning & Governance</p> <p>Agreed date: September 2024</p>
<p>3. Establishment checks</p> <p>An establishment check of the workforce as not been recently carried out.</p> <p>This is a routine check that should be performed at least</p>	<p>An establishment check should be performed at least once per year to verify the existence of staff on the payroll.</p> <p>The output should be checked and reviewed by an</p>	<p>Accepted: Full staff lists are issued as part of the monthly management accounts dashboards. Going forward we will implement and collate evidence of annual checks by</p>

Issue / risk	Recommendation	Agreed management action / officer / timing
<p>once per year to ensure the validity and existence of staff.</p>	<p>appropriate staff member to ensure the completeness and existence of the workforce (refer paragraph 36).</p>	<p>Directors to confirm existence of staff on the payroll.</p> <p>Responsible officer: Director of Workforce</p> <p>Agreed date: March 2025</p>
<p>4. Review of non-current asset useful lives</p> <p>From our review of the accounting policies, we noted that the majority of IT, plant and machinery and software licence assets have been used for significantly longer than their designated useful life. We also noted that intangible assets have a NIL value in the accounts.</p>	<p>We recommend that HIS review their accounting policy and consider allocating longer useful lives for assets in the non-current asset categories.</p> <p>Consideration should be given whether it is necessary to include a separate note for intangible assets given that the NBV is zero (refer paragraph 36).</p>	<p>Accepted: We are in agreement with this suggestion and will review our accounting policy with regards to the useful economic lives of non-current assets.</p> <p>With regards to the separate note in the accounts, although the NBV is zero the assets are still in existence and therefore we believe the note is required to demonstrate ownership.</p> <p>Responsible officer: Director of Finance, Planning & Governance</p> <p>Agreed date: March 2025</p>
<p>5. IT back up – general ledger</p> <p>NHS Scotland e-Financials services is hosted by Atos who perform all of the back-ups of the system (HIS' general ledger).</p> <p>Full responsibilities for the various system operations are included in System Operating Procedures, and these are reviewed and distributed to Boards Leads late May/ early June on an annual basis.</p> <p>We could not find documentation to evidence the back-up process in HIS were completed.</p>	<p>Evidence / confirmation should be obtained from Atos (the service provider) that routine back-ups of HIS' general ledger have been taken and tested.</p> <p>This is to ensure the integrity of the system and the ability to recreate the general ledger in the event of a failure (refer paragraph 36).</p>	<p>Accepted: We will pick this up with the host board for the general ledger to ensure backups are appropriately taken and stored.</p> <p>Responsible officers: Director of Finance, Planning & Governance Director of Evidence & Digital</p> <p>Agreed date: March 2025</p>

Issue / risk	Recommendation	Agreed management action / officer / timing
<p>6. Digital strategy</p> <p>There is an opportunity to improve the Digital Strategy by incorporating the planned investment, governance arrangements, workforce considerations and reporting arrangements from the Business Case into the Digital Strategy.</p> <p>This would help to increase the awareness of these areas for staff and wider stakeholders.</p>	<p>The ICT Review Summary could be developed into an overarching Digital Strategy by incorporating details from the Business Case for IT Investment. A single overarching strategy document would also provide greater coherence between the digital strategy and the Corporate Plan (refer paragraph 54).</p>	<p>Partially accepted: Agree that an up to date Digital Strategy should be prepared.</p> <p>The ICT Review is probably out of date and requires more than insertion of details from the business case.</p> <p>Responsible officer: Director of Evidence & Digital</p> <p>Agreed date: March 2025</p>

Follow-up of 2022/23 (prior year) recommendations (source: [2022/23 Healthcare Improvement Scotland Annual Audit Report](#))

Issue	Original recommendation / response / agreed action	Progress during 2023/24
<p>1. Journal authorisation</p> <p>Journals greater than £50,000 processed by NSS on behalf of Healthcare Improvement Scotland (HIS) and journals processed by the Healthcare Finance Managers are not subject to a secondary check. There is a risk that journal errors are not detected.</p>	<p>Original recommendation HIS should consider developing a review process, which could be retrospective, which ensures that journals input to the HIS ledger by NSS without a secondary check, and the HIS Finance Managers are subject to review</p> <p>Original response As a small finance team of five, we rely on the service level agreement with NSS to deliver most of our high volume transactions. As part of this agreement, we place reliance on their financial control framework to ensure accurate postings. We take assurance from internal audit, external audit, key performance metrics and analytical reviews. Management agrees to</p>	<p>Implemented</p> <p>Finance manager journals are now subject to secondary review by the Head of Finance.</p> <p>We reviewed the process for NSS posting journals and do not believe a review by HIS would be appropriate or beneficial at this time. Existing controls at NSS and through the reconciliation process are deemed adequate.</p>

Issue	Original recommendation / response / agreed action	Progress during 2023/24
	<p>undertake a review of these assurance processes during the year, ensuring they are proportional and adequate, and will make any amendments as required.</p> <p>Original responsible officer / action dates</p> <p>Head of Finance & Procurement</p> <p>31 March 2024</p>	
<p>2. NHS Regulations Implementation</p> <p>HIS' compliance status is below the expected level against the NIS Regulations.</p>	<p>Original recommendation</p> <p>HIS does not meet the expected compliance target within relevant timelines. HIS should consider developing a risk assessed action plan to address the actions stemming from the NIS Regulation. Implementation against the action plan should be monitored by an appropriate governance committee.</p> <p>Original response</p> <p>The NIS regulations audit actions are tracked and reported to the Audit & Risk Committee (ARC) at appropriate timescales under the resilience update. Scottish Government requested we move away from the previous risk based approach to a percentage completion approach. Therefore, we are now targeting 60% of actions being cleared as opposed to red and black rated issues. Management agrees to add this formally to the ARC business planning schedule to ensure actions are being tracked at regular intervals.</p>	<p>Implemented</p> <p>Extensive work during the year has resulted in an increase in our compliance. We moved from 49% to 78% in 23/24.</p> <p>NISR is a standing audit agenda item.</p>

Issue	Original recommendation / response / agreed action	Progress during 2023/24
	<p>Original responsible officer / action dates</p> <p>Director of Evidence</p> <p>30 September 2023</p>	
<p>3. Best value</p> <p>HIS does not undertake a periodic self-evaluation of its best value arrangements. There is a risk that HIS cannot effectively demonstrate the arrangements it has in place to secure and demonstrate best value.</p>	<p>Original recommendation</p> <p>HIS should consider how it articulates that arrangements are in place to secure and demonstrate best value.</p> <p>Original response</p> <p>Best value and performance is an area where we made significant strides in 2022/23 – introducing KPIs, enhancing our performance reporting, reprioritisation for winter pressures and formalising our sharing intelligence network, and this work will continue into 2023/24 aligning to our new strategy. All of this was overseen by the Quality & Performance Committee (QPC) and the Board and is demonstrated in the Performance report, our SG annual review and can be seen on our website.</p> <p>Management has agreed to consider this collectively in a formal best value report which will be presented to QPC periodically.</p> <p>Original responsible officer / action dates</p> <p>Director of Finance, Planning & Governance</p> <p>31 March 2024</p>	<p>In progress</p> <p>Things have progressed this year including the introduction of best value / value for money assessments in our quarterly performance reports.</p> <p>The Director of Finance is developing an annual best value report. This will be our first annual report. It has been added to the Quality & Performance Committee’s business schedule, with the first report due to be considered in August 2024 (refer paragraph 67).</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than the reporting threshold of £44,000.

The table below summarises the uncorrected misstatements that were noted during audit testing and were not corrected in the financial statements. Cumulatively these errors are below the performance materiality level as explained in [Exhibit 1](#).

We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive income & expenditure statement		Balance sheet	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£0	£0	£0	£0
1. Annual leave accrual (pension and NIC)	General fund			106	
	Payables (holiday pay accrual)				106
2. Credit Risk Provision	Payables			158	
	Receivables				158

Healthcare Improvement Scotland

2023/24 Annual Audit Report

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