

NHS National Services Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS National Services Scotland and the Auditor General for Scotland
June 2024

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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 to the unaudited financial statements however there remains significant challenges in the timeliness of responses to support an efficient audit process.

Financial management and sustainability

- 3 NHS NSS operated within its revised Revenue Resource Limit of £703 million supported by effective financial management but the non-recurring nature of efficiency savings increases the pressure on future financial sustainability.
- 4 There continues to be a robust control environment in place, but NHS NSS should progress the areas reported in our interim management letter and strengthen the controls highlighted by the qualified opinions for the national practitioner and counter fraud service and IT contract.
- 5 NHS NSS has effective medium term financial planning arrangements but the significant reliance on non-recurring funding and savings remains and difficult choices will be required to achieve financial sustainability.
- 6 NHS NSS has made improvements to the Cash-Releasing Efficiency Savings visibility and its tracking processes so it can better understand all savings that are planned and delivered across services going forward.

Vision, leadership and governance

- 7 NHS NSS has effective and appropriate arrangements in place to implement its vision, strategy and priorities supported by sound governance arrangements that support scrutiny of decisions.

Use of resources to improve outcomes

- 8 NHS NSS has appropriate arrangements for performance monitoring and reporting, including an effective best value framework.
- 9 Despite an effective workforce plan being in place NHS NSS continues to face significant workforce challenges.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of NHS National Services Scotland (NHS NSS). This report is addressed to the Board of NHS NSS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
2. The scope of the audit was set out in our annual audit plan presented to the 14 March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises the significant matters arising from the audit of NHS NSS's annual report and accounts alongside conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#).
3. We would like to thank members, directors and other staff, particularly those in finance, for their cooperation and assistance this year. We look forward to working together constructively over the remainder of the audit appointment.

Responsibilities and reporting

4. NHS NSS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS NSS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
5. My responsibilities as the independent appointed auditor 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).
6. This report contains an agreed action plan at [Appendix 1](#). Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS NSS from its responsibility to address the issues raised and to maintain adequate systems of control.

Auditor independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £248,880, as set out in the annual audit plan, remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

8. The annual audit adds value to NHS NSS 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.
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

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

Main judgements

Audit opinions on the annual report and accounts are unmodified.

There were no material adjustments to the unaudited financial statements however there remains significant challenges in the timeliness of responses to support an efficient audit process.

Audit opinions on the annual report and accounts are unmodified

9. The Board approved the annual report and accounts for NHS NSS for the year ended 31 March 2024 on 28 June 2024. 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.

Overall materiality was reviewed on receipt of the unaudited annual report and accounts and remains at the planning level of £11 million

10. Broadly, 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.

11. My initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts, with no revision required, and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£11 million
Performance materiality	£7.15 million
Reporting threshold	£500,000

Source: Audit Scotland

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

13. 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 65 per cent of overall materiality, reflecting the history of significant errors.

14. 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 those charged with governance.

Significant findings and key audit matters

15. Under ISA (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the board's accounting practices.

16. The Code of Audit Practice also requires the reporting of key audit matters as defined in ISA (UK) 701 as those matters judged to be most significant. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Remuneration and Staff Report - Opening CETV disclosure</p> <p>The Remuneration and Staff Report discloses pension information including the opening CETV calculation at the start of each financial year. In accordance with the guidance this should exclude the impact of inflation meaning that the movement disclosed will be less than the difference between the closing and opening balances.</p> <p>Due to the manner that this information is presented within the CETV calculator, NHS Boards have incorrectly disclosed the opening CETV balance adjusted for inflation.</p> <p>This is a common issue that has been identified across the majority of NHS accounts and impacts on the current and prior year opening CETV disclosures.</p>	<p>We raised this with management who have amended the disclosures in the Remuneration and Staff Report.</p>
<p>2. Additional accrual – VAT in relation to PFI/PPP contracts</p> <p>During the audit, NHS NSS confirmed that an additional accrual of £0.6 million was required to recognise the VAT liability associated with the PFI/PPP energy supplies procured via Scottish Government frameworks. The figure is based on an assumption that HMRC will seek to gain payment for a 4-year period (the longest timeframe possible).</p> <p>NHS NSS informed us of this nation-wide issue and revised allocation letters were being issued to provide the associated funding.</p>	<p>The financial statements have been amended to recognise this additional accrual.</p>
<p>3. Assets under Development and Assets under Construction</p> <p>Note 6 (Intangible Assets) and Note 7 (Tangible Assets) have the following asset categories: Assets under Development (£7.2 million) and Assets under Construction (£4.5 million), respectively.</p> <p>The current working papers available for these categories do not provide a breakdown of the assets included within these balances.</p>	<p>Significant additional audit work was undertaken to obtain sufficient evidence that the balances for each of these categories were complete, and the assets held within these categories remained appropriate.</p> <p>Recommendation 1</p>

Issue	Resolution
<p>There is a risk that these balances are misstated if there is insufficient evidence to confirm the completeness of the balances.</p>	
<p>4. Transfer from Buildings to Operational Land</p> <p>During the audit, we identified a transfer of £0.8 million from buildings to operational land accounted for in 2023/24. This should have taken place in 2022/23 following advice from the valuer.</p>	<p>We are satisfied that the correct balances are now disclosed for 31 March 2024 for each asset category.</p>

Source: Audit Scotland

There are risks to NHS NSS from the management of stock and vaccines for NHS Scotland

17. The 2023/24 annual report and accounts discloses losses of £12 million relating to expired flu and covid vaccine stock (£2.8 million), National Emergency Planning medicines (£2.1 million), pandemic related personal protective equipment (PPE) (£5.6 million) and National Distribution Centre stock (£1.5 million). This follows similar losses of £12.8 million last year. We recognise the risks associated with the role of NHS NSS in the procurement and distribution of stock and vaccines. Our audit work confirmed that the inventory management arrangements in place were appropriate.

18. In addition, due to a change in the Pharmacy system within NHS NSS, the 2023 payments were made to Lloyds Pharmacy Ltd based on historic dispensing activity plus an element of contingency. The inclusion of contingency was to ensure the cash flow for pharmacies was not adversely affected with the expectation that any overpayment would be fully recovered once the actual dispensing claims were reviewed and approved.

19. In early 2024, Lloyds Pharmacy Ltd went into liquidation with outstanding balances with Scottish health boards totalling £8.4 million. NHS NSS co-ordinated the write off approval with the Scottish Government given its role in processing the payments, however the disclosures appear in each relevant health board accounts.

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

20. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 annual audit plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

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

Audit risk	Audit Response	Conclusion
<p>1. 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>This is presumed to be a significant risk in every audit.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity. • Test journal entries and other adjustments during the financial year, at the year-end and post-closing entries. Focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments. 	<p>We did not identify any incidents of management override of controls from our testing of journals, year-end transactions, accruals and prepayments.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be reasonable.</p> <p>Conclusion: Satisfactory</p>

Audit risk	Audit Response	Conclusion
<p>2. Estimation in the valuation of land and buildings</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. Assess the approach NHS NSS has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. Assess the adequacy of the NHS NSS's disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<p>We reviewed how management engages with the external valuer.</p> <p>We assessed the valuer and confirmed that they are competent and appropriately qualified for their role.</p> <p>Walkthrough testing of the valuation procedures adopted by the valuer was satisfactory and we reviewed data provided by staff and management and assessed management's process for reviewing valuation changes.</p> <p>The results from the valuation exercise were correctly recorded in the financial ledger and the annual report and accounts.</p> <p>Conclusion: Satisfactory</p>
<p>3. Risk of material misstatement due to fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA (UK) 240 to include consideration of fraud in expenditure for public bodies.</p> <p>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.</p>	<ul style="list-style-type: none"> Analytical procedures over expenditure streams to support detailed testing. Focused testing of payments made under contracts. Substantive testing of expenditure transactions across the financial year. Substantive testing of post-year end payments to confirm they have been recorded in the correct financial year. 	<p>Analysis of all expenditure streams was carried out and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions was undertaken. We did not identify any instances of fraud in NHS NSS's expenditure.</p> <p>Conclusion: Satisfactory</p>

Audit risk	Audit Response	Conclusion
<p>4. Estimation in the valuation of inventories</p> <p>ISA (UK) 501 defines the specific audit procedures required where inventory is material.</p> <p>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.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over inventory management and counts. • Attend physical inventory counts to observe procedures, assess the accuracy of instructions and test the reliability of records. • Agree stock balances at 31 March 2024 to control sheets prepared during inventory counts. • Substantive testing of inventory items by tracing them back to purchase invoices to verify the accuracy of valuations. • Assess the adequacy of provisions for obsolete inventory by reviewing management's inventory analysis. • Review the inventory write offs including the approval process. 	<p>Walkthrough testing of the inventory management and inventory count procedures were confirmed to be satisfactory.</p> <p>We attended a physical inventory count and found there to be no issues with the reliability of records.</p> <p>Substantive testing of inventory items and agreement to stock balances was undertaken, with no issues identified.</p> <p>Conclusion: Satisfactory</p>

Source: Audit Scotland

21. In addition, we identified an area of audit focus relating to the accounting for service concession arrangements, due to the change in accounting treatment for indexation linked payments. We kept this area under review throughout our audit and were advised by NHS NSS that the accounting change had no impact on its PFI arrangement for the Jack Copland Centre. Due to a change within the finance team, the audit evidence to support that decision was lacking. We are content that there would be no material misstatement, but we have asked finance to formalise this judgement and ensure a full handover for all future staffing changes.

Recommendation 1

Management should ensure all judgements are sufficiently evidenced to support the audit process.

There were number of non-material misstatements identified within the financial statements

22. Other than the issues detailed as significant findings in [Exhibit 2](#), the audit identified no misstatements above the reporting threshold.

The quality management arrangements for the annual report and accounts have been strengthened but the audit process remains challenging

23. The unaudited annual report and accounts were received on 8 May 2024 slightly later than the agreed timeline of 7 May 2024, however this did not impact on the audit process. We recognise that the internal quality management arrangements have been strengthened and the standard of the annual report and accounts was improved. However, as reported last year, we continued to experience delays in receiving some supporting information, working papers and responses to audit requests. This presented a significant challenge for the efficiency of the audit. We will continue to work with management to identify ways to improve this for future audit years.

Recommendation 2

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.

Good progress was made on prior year recommendations

24. 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](#).

2. Financial management

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

Conclusion

NHS NSS operated within its revised Revenue Resource Limit of £703 million supported by effective financial management but the non-recurring nature of efficiency savings increases the pressure on future financial sustainability.

There continues to be a robust control environment in place, but NHS NSS should progress the areas reported in our interim management letter and strengthen the controls highlighted by the qualified opinions for the national practitioner and counter fraud service and IT contract.

NHS NSS operated within its Revenue Resource Limit (RRL) of £703 million

25. 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. As a result, [Exhibit 4](#) shows that NHS NSS operated within its limits during 2023/24.

Exhibit 4 Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	684.124	683.708	0.416
Non-core revenue resource limit	19.186	19.186	0
Total revenue resource limit	703.31	702.894	0.416
Core capital resource limit	9.736	9.736	0
Non-core capital resource limit	3.684	3.686	0
Total capital resource limit	13.422	13.422	0.034

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Cash requirement	631.728	631.728	0

Source: NHS NSS Annual Report and Accounts 2023/24

Budget processes remain appropriate

26. NHS NSS has continued to produce a three-year forward financial plan, providing a longer-term perspective than the one-year remobilisation plan required by the Scottish Government.

27. In March 2023, NHS NSS's draft financial plan set a balanced budget for 2023/24, with overall gross expenditure of £824 million and a core revenue resource limit of £681.4 million. In the original 2023/24 budget, NHS NSS required efficiency savings of £18.9 million, with £11.9 million identified and a further £7.1 million that were to be identified.

28. NHS NSS has taken a different approach to Cash-Releasing Efficiency Savings (CRES) in 2023/24. At the start of the financial year, it was decided that rather than a 5 per cent target being applied to all baseline funded services, specific savings programmes would be identified and planned for within each Directorate. Specific budgets were reduced at the start of the financial year or unmet savings targets were applied within Directorate budgets, so the impact was phased into the position.

29. NHS NSS fully achieved its CRES revised target of £12.8 million. Later in the year, a further opportunity of £1.3 million was realised through negotiations for dilapidations of Meridian Court.

30. Of the total savings made, £6.6 million (46 per cent) were achieved on a non-recurring basis, increasing the risk of achieving financial sustainability in future years.

NHS NSS has appropriate financial control arrangements in place, although reported weaknesses should be addressed

31. 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 May 2024 Audit and Risk Committee.

Recommendation 3

NHS NSS should implement the agreed actions from our interim audit management letter to strengthen the overall control environment.

NHS NSS is working to strengthen arrangements after the service auditor issued qualified opinions for the national practitioner and counter fraud service and IT contract

- 32.** The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.
- 33.** 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. 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.
- 34.** NHS NSS procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems. This is the first year of the new service audit contract.
- 35.** For the payroll services provided by NHS NSS the Type II service audit resulted in an unqualified opinion on the controls in place. Further the Type I audit for the recently transferred South East payroll service concluded that the controls were suitably designed to provide reasonable assurance.
- 36.** For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective '*Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance*' did not operate effectively during the year.
- 37.** For the national IT services contract the Type II service audit also 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.
- 38.** NHS NSS is responding to the qualified opinions and has plans in place to address the identified weaknesses for 2024/25.

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

39. In the public sector there are specific fraud risks, such as those relating to prescription fraud, 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.

40. 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. During 2023/24 NHS NSS created a register of interest portal and rolled this out for all Board Members, Executive Management Team, Directorate Senior management Teams and relevant procurement officials.

National Fraud Initiative

41. 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 2022/23 exercise concluded during the 2023/24 financial year. For NHS NSS, the NFI exercise identified two payroll frauds where employees had been working at NHS NSS whilst being remunerated in other public sector bodies in the same period.

42. The final report for the 2022/23 NFI exercise is due to be published in Summer 2024 and should be reviewed to identify any wider learning.

3. Financial sustainability

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

Conclusion

NHS NSS has effective medium term financial planning arrangements, but the significant reliance on non-recurring funding and savings remains and difficult choices will be required to achieve financial sustainability.

NHS NSS has made improvements to the Cash-Releasing Efficiency Savings visibility and its tracking processes so it can better understand all savings that are planned and delivered across services going forward.

Significant changes are needed to ensure financial sustainability of Scotland's health service

43. The significant cost pressures already experienced by public bodies are likely to continue. 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. These include Inflation and recurring pay pressures.

44. NHS NSS continues to see a significant proportion of its budget made up of non-recurring funding, which amounted to £241 million (35 per cent) in 2023/24. This limits financial flexibility to deal with some of the highlighted financial pressures and to opportunities to make future savings through investing in key priority areas.

NHS NSS has continued to prepare a three-year rolling financial plan and improvements have been made to tracking its efficiency savings

45. NHS NSS's 2024/25-2026/27 financial plan was approved by the Board in March 2024. Forecasts in the financial plan are based on several assumptions, including inflationary costs, pay growth and known dilapidation costs.

46. NHS NSS has forecasted a balanced plan for a three-year period, however, it is dependent on further efficiency savings being achieved. The planned actions to address the identified budget pressures include:

- the conversion of non-recurring budget vacancy factors into recurring savings following service redesign
- improved productivity through Service Excellence
- further estates rationalisation; and
- a continued focus on expenditure controls.

47. As NHS NSS is required to continue to identify efficiency savings to break even, it made improvements to the CRES visibility and tracking process in 2023/24. With the introduction of a formal approach in Business Finance, officers have committed to making this an area of focus and refinement in 2024/25 so that NHS NSS can better understand all savings that are planned and delivered across services.

NHS NSS continues to have a significant reliance on non-recurring funding and savings

48. Historically, health boards have found it difficult to deliver planned recurring savings and have often relied on non-recurring measures. The Scottish Government has set a target of 3 per cent recurring savings which represents £11.4 million for NHS NSS. While plans are in place to achieve the 3 per cent savings for 2024/25, only £5.9 million is currently on a recurring basis.

49. NHS NSS has forecasted that Vacancy Management controls will continue to drive non-recurring saving efficiencies. A further £3 million of non-recurring savings have been identified through corporate Financial Management measures.

50. While there has been significant additional funding provided to NHS NSS in 2023/24, this has been allocated as non-recurring funding and the need to continue service redesign programmes is likely to occur over the medium term.

51. The Scottish Government plans to introduce allocation 'bundling' to maximise funding flexibility but this is not in place for the 2024-25 opening budget. This would give NHS NSS greater certainty when undertaking longer-term planning.

4. 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.

Conclusion

NHS NSS has effective and appropriate arrangements in place to implement its vision, strategy and priorities.

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

NHS NSS has developed a refreshed strategic framework to emphasise the purpose, vision, and strategic objectives of the organisation

52. A refreshed strategic framework covering a 2-year period has recently been developed. It reinforces the strategic priorities and highlights the commitment to the values of NHS Scotland by clarifying the core services. It will remain in place through to 2026, ensuring alignment with the NHS Recovery Plan 2021-2026.

53. The release of the new overarching strategy for NHS Scotland is due in 2024/25, therefore the new strategic framework at NHS NSS provides the health board with the flexibility to review and refresh the strategy and approach.

54. An implementation plan was developed to support this new strategic framework to ensure there is effective engagement with stakeholders.

Governance arrangements are appropriate

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

56. Papers and minutes for Board meetings, including financial and performance information, are available on the 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.

57. 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.

Cyber security arrangements are appropriate, although work is being undertaken to develop the cyber strategy

58. 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.

59. In February 2024, cyber criminals launched an attack on NHS Dumfries and Galloway's IT systems. NHS NSS provided assistance and support to NHS Dumfries and Galloway as it handled this incident. NHS NSS also engaged with the rest of NHS Scotland, providing updates as necessary and ensuring the risk of cyber-attacks spreading across shared services were mitigated.

60. Like other public bodies, NHS NSS is required to comply with the Public SG Cyber Resilience Framework (PSCRF). We noted that NHS NSS has undertaken its audit of compliance with this framework during our review of the cyber security arrangements. NHS NSS's overall compliance rate was reported to be 82% across all areas of the PSCRF, which is assessed as 'Medium-High' maturity. This represents NSS as being mostly compliant with the PSCRF with some areas of strong security performance as well as key identified gaps and areas for improvement. A Cyber Security Maturity Improvement Plan for 2024-2025 was then developed to address these gaps and progress against this plan will be reported to the NSS Executive Management Team (EMT) and Audit and Risk Committee going forward.

61. We made a recommendation in 2022/23 that NHS NSS should develop a cyber strategy. This is currently in development, and it is due to be delivered along with the refreshed Cyber Centre of Excellence (CCoE) Strategy by the end of Quarter 1 of 2024/25.

5. 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

NHS NSS has appropriate arrangements for performance monitoring and reporting, including an effective best value framework.

NHS NSS has significant challenges regarding pressures on its workforce, however an effective workforce plan continues to be in operation.

NHS NSS has appropriate arrangements for performance monitoring and reporting

62. NHS NSS continues to utilise Integrated Performance Reports, which summaries its performance in relation to its service, finance, people and the environment. Regular performance reporting at NHS NSS demonstrates the outcomes are being appropriately managed and escalated as necessary.

63. NHS NSS were required to prepare an Annual Delivery Plan for 2023/24 providing deliverables, milestones, and risks with a draft to be submitted to Scottish Government in June 2023. The plan was subsequently approved by the Scottish Government within Quarter 2 of 2023/24 providing clarity for NHS NSS on performance priorities.

64. Following this, NHS NSS has presented quarterly update reports to the Finance, Procurement and Performance Committee, the Board and Scottish Government sponsors, on the progress made against the milestones agreed. This has been made publicly available through the board papers and minutes that are published on the NHS NSS website.

65. There is evidence that NHS NSS is continuing to meet its performance targets. As reported in Quarter 4 of 2023/24, 94 per cent of the milestones were achieved with the remaining 6 per cent behind schedule.

NHS NSS has an appropriate and effective best value framework

66. [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.

67. NHS NSS undertakes a biennial review of its best value performance in line with the ministerial guidance, which is considered appropriate. The last review has recently been completed in May 2024, where a mapping exercise was conducted.

68. The completed evaluation considered a variety of processes and documentation; reports; roles and responsibilities; reporting mechanisms; assurance mechanisms and external scrutiny already in place and mapped these to the themes in the Best Value guidance. NHS NSS did not identify any gaps where the board are not adhering to the Best Value themes.

69. The framework in place at NHS NSS demonstrates a level of continuing improvement, provides evidence against each Best Value theme, and details the governance arrangements surrounding each theme. The committees also receive regular updates on performance through the various reports detailed within this.

NHS NSS face challenges with staff turnover and pressures on its workforce, however an effective workforce plan continues to be in operation

70. NHS NSS developed a 3-year workforce plan in 2022 with supporting workforce plans in place for each Directorate. It sets out key deliverables to support recovery, growth and transformation of services and the workforce.

71. Performance against these deliverables is managed through the workforce performance indicators which are assessed as part of the Integrated Performance Report. NHS NSS reports that the sickness absence indicator has reduced, with compliance levels for appraisals, objective setting and personal development plans all increasing in 2023/24.

72. Staffing issues in the Scottish National Blood Transfusion Service is proving challenging particularly with specialist technical posts. This has increased the staff turnover performance indicator from 5.66 per cent to 8.04 per cent.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue / risk	Recommendation	Agreed management action/timing
<p>1. Insufficient working papers to support key account areas</p> <p>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.</p> <p>Further, due to staff changes, there was insufficient audit evidence to support the judgement on the impact of PFI accounting changes.</p> <p>Risk – Balances are misstated as there is insufficient records held to confirm the accuracy and completeness of the balances and the key management judgements.</p>	<p>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.</p> <p>Exhibit 2 Paragraph 21.</p>	<p>Accepted</p> <p>The officer involved in the preparation of working papers outlined retired at the end of April after the year-end figures were finalised but prior to the start of the audit.</p> <p>Management is confident that appropriate work to prepare the year end accounts was completed, but acknowledge the underlying working papers need improvement.</p> <p>Responsible officer: Associate Director: Finance Operations</p> <p>Agreed date: 31 March 2025</p>
<p>2. Annual Report and Accounts Preparation and Audit Delays</p> <p>We continue to experience significant delays in receiving some supporting information, working papers and responses to audit requests.</p> <p>Risk – There is a risk to the delivery of the external audit of the annual report and accounts.</p>	<p>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.</p> <p>Paragraph 23.</p>	<p>Partially accepted</p> <p>A total of 143 audit queries were received during the course of the audit. Of these 68 queries (c48% of the total) were received in weeks five and later of the audit which resulted in a backlog of queries to be responded to towards the end of the audit.</p>

Issue / risk	Recommendation	Agreed management action/timing
		<p>Management proposes to work with the audit team to revise the timing of testing and subsequent queries to avoid any delay in future audits.</p> <p>Responsible officer; Associate Director: Finance operations</p> <p>Agreed date: 31 March 2025</p>
<p>3. Control environment</p> <p>In our management letter we identified a number of opportunities for NHS NSS to strengthen the control environment.</p> <p>Risk – Weaknesses in the control environment can increase the likelihood of fraud or error in the system.</p>	<p>NHS NSS should implement the agreed actions from our management letter to strengthen the overall controls environment.</p> <p>Paragraph 31.</p>	<p>Accepted</p> <p>An action plan has been agreed and all recommendations will be addressed during 2024/25.</p> <p>Responsible officer: Associate Director: Finance Operations</p> <p>Agreed date: 31 March 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Progress
<p>b/f 1. Annual Report and Accounts Preparation and Audit Delays</p>	<p>NHS NSS should undertake a review of its year-end audit preparations and finance staff capacity to ensure that there is sufficient oversight on preparation and that working papers and responses to audit requests are provided in a timely manner.</p>	<p>Work in progress</p> <p>Recommendation 2 above</p>
<p>b/f 2. Provisions</p>	<p>A formalised annual review of backlog maintenance across the NHS NSS estate would highlight whether provisions remain reasonable.</p>	<p>Implemented</p> <p>NHS NSS instructed for an external surveyor to complete dilapidation reports for the current leases held in order to provide a basis of the costs</p>

Issue/risk	Recommendation	Progress
	Management should document their judgement for all provisions and ensure there is sufficient evidence to support these estimates at the outset of the audit.	which are due to be incurred by NHS NSS at the end of each of the leases.
b/f 3. Remuneration Report	NHS NSS should undertake a review of its working papers when preparing the Remuneration Report and ensure that required disclosures are accurate and in line with the FReM and associated guidance.	Implemented Although there were some issues and delays with the Remuneration Report being presented for audit, these related to wider issues across all audited bodies.
b/f 4. Control environment	NHS NSS should implement the agreed actions from our management letter to strengthen the overall controls environment.	Work in progress <u>Recommendation 3 above</u>
b/f 5. Service assurance gap	NHS NSS should engage with NHS Ayrshire & Arran to address the assurance gap over general IT controls for the NSI eFinancials system.	Implemented NHS NSS has facilitated engagement between the relevant parties. Although the assurance gap remains, we recognise that the responsibility sits with NHS Ayrshire & Arran.
b/f 6. Register of Interests	NHS NSS should ensure that register of interests' declarations are extended to all senior management staff, including those involved in procurement at a senior level.	Implemented Register of interest portal created and rolled out to all Board Members, Executive Management Team, Directorate Senior management Teams and relevant procurement officials.
b/f 7. Cyber-attack	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.	Work in progress We have been advised by officers that this is currently in development, and it is due to be delivered along with the refreshed Cyber Centre of

Issue/risk	Recommendation	Progress
		Excellence (CCoE) by the end of Quarter 1 of 2024/25.

NHS National Services Scotland

2023/24 Annual Audit Report

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