



NHS 24

Annual Report to the Board of NHS 24 and the Auditor General for Scotland 2011/12

June 2012



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Executive summary

Financial statements

NHS 24 annual accounts are due to be approved by the Board on 28 June 2012. We expect to report within our independent auditors' report unqualified opinions on the financial statements of NHS 24 for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.

We received draft annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work. A small number of amendments were required to the draft financial statements however these were generally in relation to disclosure requirements.

On an annual basis, boards should agree transactions and outstanding balances with other NHS Scotland bodies. These agreements form the basis for SFR 30 returns included within the annual accounts template submitted to the SGHD. During our audit we found that income recorded within inter-board agreements did not fully reconcile with the draft accounts and we recommend that NHS 24 ensure that SFR 30 agreements clearly reconcile to underlying income records.

We recommend management ensure that the valuation of dilapidations on leasehold property is undertaken on a frequent basis to ensure the value of the provision within the accounts remains an accurate reflection of the likely future cost to NHS 24. We also recommend that management liaise with the Scottish Government over future expenditure on Telehealth equipment to ensure that these assets are appropriately managed by the relevant boards across Scotland.

Use of resources

NHS 24 achieved a surplus against its Revenue Resource Limit (RRL) of £0.199 million. This surplus represents an underspend of 0.3%. The outturn position includes the in-year reduction in RRL of £3 million, which NHS 24 has agreed with the Scottish Government to carry forward to 2012/13. This will be utilised to support the costs of the SFLA programme and service redesign implementation.

During 2011/12, NHS 24 generated efficiency savings of £1.443 million above the initial target set of £2.015 million. Predominantly these savings have been used to fund additional costs incurred in other areas of NHS 24 resulting in a net underspend of £0.199 million. The efficiency savings relate to staff and operating costs savings through unfilled posts and the level of additional support required over the winter period being lower than forecast.

The 2012/13 financial plan identifies the need for NHS 24 to deliver efficiency savings of £1.72 million. Of this £0.778 million of savings have yet to be formally identified by management. It is essential that NHS 24 have a comprehensive efficiency savings plan in place to ensure delivery of 2012/13 financial targets.

Delivery of medium term future savings will be challenging. NHS 24 has agreed significant brokerage funding from the Scottish Government to cover the next two years. In addition to £0.320 million of brokerage funding received in 2011/12, NHS 24 is due to receive £18.077 million in 2012/13 and a further £1.660 million in 2013/14. This will be repaid over a four year period from 2014/15. As a result of brokerage repayments and additional cost pressures, savings required during 2014/15 represent 6.6% of NHS 24's overall recurring RRL for the year. It will be a considerable challenge for NHS 24 to deliver the level of required savings over the next few years particularly with the level of brokerage repayments required.

Performance

NHS 24 has in place a robust performance management framework. Directorates prepare comprehensive performance information to management on a monthly basis covering all performance indicators included within the Local Delivery Plan and corporate plans. These reflect both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets.

Governance

Our work on corporate governance focussed on reviewing NHS 24's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity, standards of conduct and the prevention and detection of bribery and corruption. We are pleased to report that governance arrangements appear effective.

NHS 24 will require robust management of the strategic frontline application (SFLA) and service redesign programmes. Successful implementation within budget will be a significant challenge to NHS 24. The timescale for implementation of the new frontline application and service redesign will also be demanding. The decision to incorporate two major changes (SFLA and service redesign) into one single programme, while avoiding duplication of training and transitional work, may create strain on the existing workforce. There is considerable risk that management look to maximise the output from the new applications immediately before allowing the new applications to embed across the organisation. It is essential that clear objectives are defined at the outset of the programme to avoid any project drift through changing requirements of the applications.

The implementation programmes involve a range of key personnel from across NHS 24. While the involvement of key staff is important to ensure significant change programmes are implemented successfully there is a risk that there is not sufficient capacity, skills or experience within the existing workforce to deliver this level of change. NHS 24 must ensure that the delivery of such a challenging agenda of change does not impact on frontline service delivery and that management maintain a clear focus on operational performance.

Looking forward

The role out of the SFLA and service delivery arrangements are the key areas of focus for the organisation over coming years. This is not only a significant project financially in relation to the contract costs but impacts on the entire frontline service delivery. It is essential that not only do NHS 24 have robust arrangements in place to support delivery of the project but also that there are adequate arrangements in place to oversee the implementation of the new arrangements and embed revised procedures across NHS 24. NHS 24, in close partnership with Scottish Government, is continuing to look to develop further partnership working in Europe and with other health partners. Through the sharing of premises with NHS Grampian and the Scottish National Blood Transfusion Service from mid 2013, NHS 24 seeks to reduce energy costs and utilise the health estate.

Conclusion

This report concludes our audit of NHS 24 for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Chief Executive and Director of Finance and Technology and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

June 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of NHS 24. The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2011/12 have been:
 - Audit of the financial statements, including a review of the Governance Statement
 - Review of governance arrangements, internal controls and financial systems
 - Targeted follow up of Audit Scotland's *The Role of Boards*
 - Review of best value arrangements at NHS 24
 - Review of the NHS 24's response to Audit Scotland National Study reports
 - Review of NHS 24's involvement in the National Fraud Initiative (NFI)
3. In addition to this annual report, we have delivered the following outputs during 2011/12:
 - External audit plan
 - Interim management report
 - Targeted follow up of Audit Scotland's *The Role of Boards*
 - Best value review

The key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including NHS 24's internal audit service and Audit Scotland's Public Reporting Group.
5. This report is addressed to both NHS 24 and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to NHS 24. In this section we summarise the issues arising from our audit of the 2011/12 financial statements.

Management responsibilities

7. It is the responsibility of NHS 24 and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - maintaining proper accounting records;
 - preparing financial statements timeously which give a true and fair view of the financial position of NHS 24 and its expenditure and income for the period ended 31 March 2012; and
 - preparing a Directors' Report, an Operating and Financial Review, a Corporate Governance Statement and a Remuneration Report.

Auditor responsibilities

8. We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:
 - whether they give a true and fair view of the financial position of NHS 24 and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
 - whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
9. We also review NHS 24's Governance Statement by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and

- assessing whether disclosures in the statement are consistent with our knowledge of NHS 24.

Confirmation of auditor independence

10. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.
11. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
 - a) There are and have been no relationships between Scott-Moncrieff and NHS 24, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
 - b) Scott-Moncrieff has not provided any consultancy or non-audit services to NHS 24.

Overall conclusion

An unqualified audit opinion on the financial statements

12. NHS 24 annual accounts are due to be approved by the Board on 28 June 2012. Within our independent auditors' report we expect to report unqualified opinions on the financial statements of NHS 24 for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.
13. We are satisfied that the Governance statement complies with Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. NHS 24 has a good overall framework in place to support an effective internal control environment.

An unqualified audit opinion on the regularity of transactions

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in NHS 24's accounts.
15. We have also concluded that the financial statements and the part of the Remuneration Report to be audited for NHS 24 have been properly prepared in accordance with guidance issued by Scottish Ministers, and that information in the management commentary which is included within the Annual Report is consistent with the financial statements.

Good administrative processes were in place

16. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health Directorates (SGHD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.
17. We received draft annual accounts and supporting papers of a high standard and in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

Audit and accounting adjustments

18. NHS 24 did not receive the final Revenue Resource Limit (RRL) allocation letter until the year-end audit was being undertaken. Subsequently there was an adjustment of £0.006 million between core and non-core funding within the draft financial statements. This had no impact on NHS 24 delivering its financial performance targets.
19. We identified a number of disclosure and presentational adjustments and are pleased to report that these are reflected in the updated financial statements.

Table 1 – Adjustments during the audit

	£000	£000
	DR	CR
Income - Other		105
Income – NHS Boards	105	

20. Within the Remuneration Report we identified that benefit-in-kind payments had been incorrectly included within directors within total remuneration. As this is separately disclosed, the amounts should be excluded from total remuneration. The annual accounts have been updated both the current year and prior year disclosure to reflect the requirements of the NHS Manual for Accounts.

Transactions with other NHS Scotland bodies

21. On an annual basis, boards should agree transactions and outstanding balances with other NHS Scotland bodies. These agreements form the basis for SFR 30 returns included within the annual accounts template submitted to the SGHD.
22. While the SFR 30 return is not required to be disclosed within the statutory accounts, the *NHS Manual for Accounts* requires the amount shown in the return to agree with NHS receivables, payables and income reported in the accounts. We found that while amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements, income did not agree. On further investigation, management identified that the

draft accounts included a misallocation of income between amounts from NHS Boards and other income, which was adjusted above.

23. Whilst we are satisfied that income received from NHS bodies disclosed in the accounts is correct, we recommend that NHS 24 ensures that future inter-board agreements are based on income figures used to populate the accounts. These agreements should then form the basis of the SFR 30 note.

Action plan point 1

Unadjusted differences

24. We are pleased to report that there were no unadjusted errors within the financial statements.

Key areas of audit focus and significant findings

25. We are required by international auditing standards to report to the board the main issues arising from our audit of the financial statements. The most significant issues are noted below

Telehealth assets

26. The Scottish Centre for Telehealth (SCT) was transferred to NHS 24 from NHS Grampian in April 2010. While the expenditure could potentially meet the definition of capital spend, during 2010/11 NHS 24 accounted for it as revenue expenditure.
27. During 2011/12, the level of expenditure on Telehealth equipment was significantly lower than previous years. This has been recognised as revenue expenditure during the year. The accounting basis was agreed with the Scottish Government Health Directorates and is not considered material to the financial statements. NHS 24 does not consider the equipment to represent capital spend as defined by International Accounting Standard 16: *Property, plant and equipment* (IAS 16). The equipment is not held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is not used or managed by NHS 24.
28. Whilst we are satisfied with NHS 24's accounting treatment with regard to this expenditure, it is important that the assets are appropriately managed and security is maintained. We are aware that NHS 24 is liaising with SGHD on the appropriate accounting treatment for Telehealth assets should significant costs be incurred in the future. We recommend that these discussions should include agreement over who is responsible for management and ownership of the equipment.

Action plan point 2

Further work remains to establish the status of existing equal pay claims

29. The NHS in Scotland has received in excess of 10,000 claims for equal pay. NHS 24 has 4 claims with the NHS Scotland Equal Pay Unit, which is working with the Central Legal Office (CLO) in coordinating a national response to this issue.
30. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere in the UK further inform the position.
31. Discussions have been held between Audit Scotland, partner audit firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in previous years. Given CLO advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2011/12 financial statements of affected NHS Boards.

Provisions estimation basis

32. Under the terms of existing lease contracts, NHS 24 is required to ensure that some premises occupied are returned at the termination of the lease to their original standard. NHS 24 recognises a dilapidations provision within the accounts to reflect the current value of the likely future cost of returning the assets to the condition stipulated within the lease contract. During 2009/10 an independent valuation was conducted to determine the likely cost of bringing the assets into a suitable state of repair.
33. Whilst we do not consider the provision in the accounts to be materially misstated, we recommend that management ensure that the value of the provision is revisited more frequently to ensure that it remains an appropriate reflection of the likely future costs that NHS 24 will incur. This should avoid unexpected costs being incurred at the termination of the contract.

Action plan point 3

Impairment forms

34. During 2011/12, NHS 24 impaired a number of IT assets and items of furniture and fittings with a total cost of £2.213 million (net book value £0.028 million). Asset impairments are authorised through the completion of a standard form. The form used is the same as that which should be used if the asset is disposed of. This represents a risk that the transaction is not appropriately recognised in the accounts or underlying accounting records.

35. Whilst we are satisfied that the transaction during 2011/12 represented an impairment we recommend that standard impairment forms are established by NHS 24 to distinguish these from disposals.

Action plan point 4

Use of resources

36. This section of the report sets out the main findings from our review of how NHS 24 manages its key resources in terms of financial performance and management of assets.

NHS 24's financial performance in 2011/12

NHS 24 has met its key targets in the year

37. NHS 24 is required to work within the resource limits and cash requirements set by SGHD. As shown in Table 2 below, NHS 24 has met all of its financial targets.

Table 2 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	62,450	62,251	199	Yes
Capital Resource Limit	319	259	60	Yes
Cash Requirement	61,000	60,892	108	Yes

(Source: 2011/12 Annual Accounts)

38. NHS 24 achieved a surplus against its Revenue Resource Limit (RRL) of £0.199 million. This surplus represents an underspend of 0.3%. NHS 24 had forecast a breakeven position however due to staffing and operating costs together with the costs of winter being lower than forecast. The outturn position includes the in-year reduction in RRL of £3 million, which NHS 24 has agreed with the Scottish Government to carry forward to 2012/13. This will be utilised to support the costs of strategic frontline application (SFLA) and service redesign programme implementation. These programmes will see changes to software applications, IT infrastructure and service delivery arrangements.
39. Funding during 2011/12 includes brokerage funding of £0.320 million from the Scottish Government. This is the first tranche of an agreed £20 million brokerage arrangement over the next three years. This has been utilised during the year on SFLA implementation costs.
40. We have analysed NHS 24's 2012/13 outturn into recurring and non-recurring items, as shown in Table 3. This highlights that NHS 24's surplus position has been delivered through recurring income and expenditure and should therefore be sustainable.

Table 3 – Achievement of 2011/12 surplus

	£000
Recurring income	60,200
Recurring expenditure	(63,300)
Recurring savings	<u>2,299</u>
Underlying recurring surplus/(deficit)	199
Non-recurring income	2,300
Non-recurring expenditure	(3,400)
Non-recurring savings	<u>1,100</u>
Non-recurring surplus/(deficit)	-
Financial surplus/(deficit)	199
Underlying recurring surplus/(deficit) as percentage of recurring income	<u>0.3%</u>

(Source: Financial Data Return)

41. Table 3 shows that the NHS 24's underlying surplus is generated through recurring savings. While the surplus initially appears to be small relative to the level of income received the final financial position excludes the agreed reduction in Scottish Government funding of £3 million.

Capital Resource Limit

NHS 24 delivered a breakeven position against its CRL for 2011/12

42. NHS 24 generated a surplus of £0.060 million against its CRL in 2011/12 with total capital expenditure of £0.259 million. The expenditure was against a number of small projects, namely Wireless LAN, the CC6 voice upgrade, the purchase of software for the Patient Reminder Service and IT equipment for the SFLA implementation team.

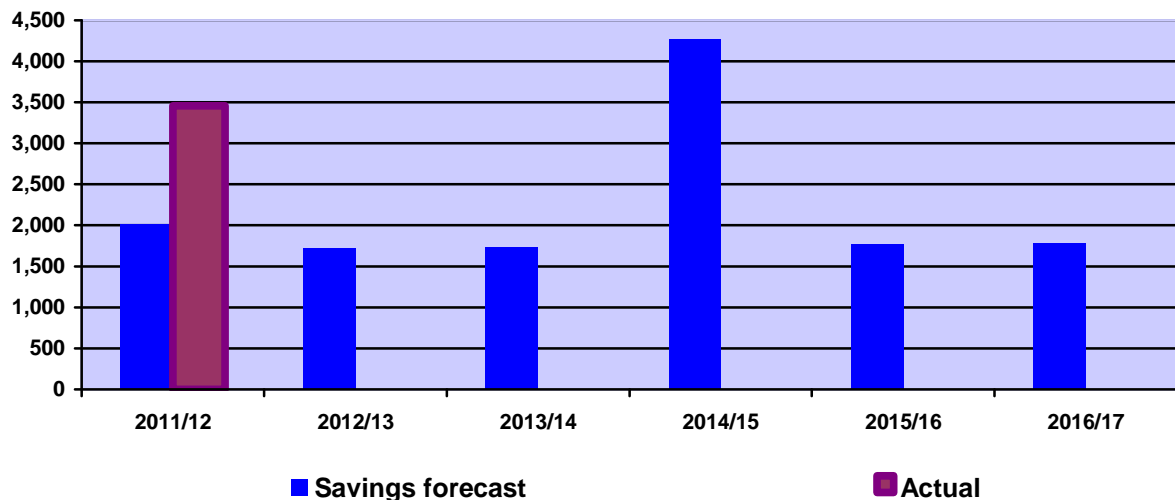
Financial plans

The five year financial plan reflects the increasingly challenging financial climate

43. Diagram 1 is derived from NHS 24's LDP and supporting financial plans and highlights the level of forecast savings required to be made to deliver a balanced budget over the next five years.

These forecasts are subject to ongoing scrutiny and update, in collaboration with Scottish Government.

Diagram 1 – Savings requirement 2011/12 – 2016/17



(Source: Based on Board-approved financial plan/LDP)

44. The diagram highlights the significant pressures on NHS 24 to deliver efficiency savings. 2014/15 is the first year that NHS 24 is required to make repayments, treated as funding reductions, to the Scottish Government for brokerage funding provided. The reduction in funding will put significant pressure on the level of financial resource held. It is therefore imperative that the SFLA and service redesign programmes are rolled out as efficiently and effectively as possible to ensure that real cost savings are realised as soon as possible. This will help to avoid NHS 24 incurring additional running costs through project slippage.
45. Savings required during 2014/15 represent 6.6% of NHS 24's overall recurring RRL for the year. It is envisaged that the SFLA contract will realise savings which will contribute towards this target. It will be a considerable challenge for NHS 24 to deliver the level of required savings within over the next few years particularly with the level of brokerage repayments required.

Funding

46. NHS 24's 2012-17 financial plan assumes future increases of approximately 1% per annum in RRL allocations. The financial plan also includes a significant level of agreed brokerage funding from the Scottish Government to fund front-loaded programme costs from the SFLA implementation. In addition to £0.320 million of funding received in 2011/12, NHS 24 is due to receive £18.077 million in 2012/13 and a further £1.660 million during 2013/14. NHS 24 is required to repay the total brokerage funding of £20.570 million over a four year period. This will be treated as a reduction in future funding allocations rather than as a cash transaction.

47. NHS 24 has agreed to carry forward £3 million from the 2011/12 RRL allocation which will be utilised in 2012/13. It is envisaged that this will help support the implementation costs associated with the SFLA and service redesign programmes.
48. The funding forecasts are considered reasonable and NHS 24 has agreed these financial projections with the Scottish Government.

Cost pressures

Cost increases exceed funding increases

49. NHS 24 faces very significant financial challenges in the coming years. Implementing the SFLA and service redesign programmes must be managed alongside wider challenges such as pay modernisation, price and more general health improvement initiative costs. The financial plan has been constructed on the basis of the financial assumptions shown in Table 4.

Table 4 - Price increase assumptions

Assumptions	2012/13	2013/14	2014/15	2015/16	2016/17
Resources	0.83%	1.00%	1.00%	1.00%	1.00%
Pay – general	0.00%	1.00%	1.00%	1.00%	1.00%
Prices – general	0.00%	1.00%	1.00%	1.00%	1.00%

(Source: LDP submission/related updates)

50. Based on our knowledge of NHS 24 and our experience of other boards' financial plans, we consider the finance assumptions used by NHS 24 to be reasonable. The zero uplift in pay costs is actually due to targeted savings in non-clinical costs offsetting any general increase in pay due to banding movements.
51. There is a detailed financial risk assessment framework in place within NHS 24 to help identify, appraise and monitor financial risks. Board management are quick to factor these pressures into the financial planning process.

Savings plans

Savings targets were exceeded in 2011/12

52. Table 5 sets out the cash savings programme delivered during 2011/12 against the planned savings. The savings delivered were identified through a mixture of specific efficiencies highlighted at the start of the financial year.

Table 5 – Cash savings 2011/12

Source of savings	2011/12 Savings target £000s	2011/12 Actual savings £000s	Variance £000s
Clinical Productivity	383	1,285	902
Procurement	641	860	219
Support Services	906	1,228	322
Estates and Facilities	85	85	-
Total	2,015	3,458	1,443

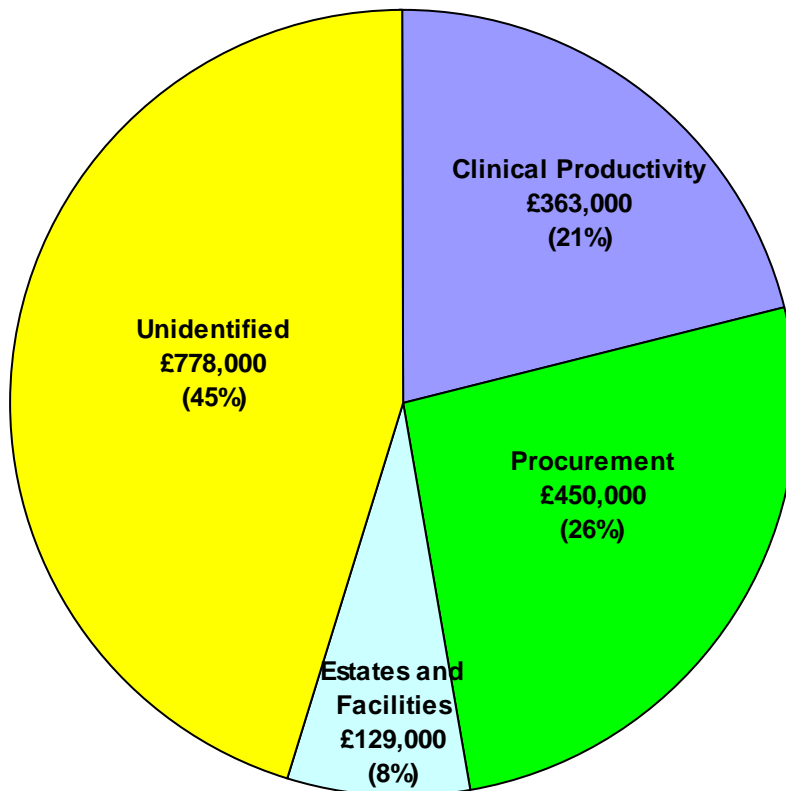
(Source: NHS Board report, May 2011)

53. Actual savings recognised in the period have been significantly above the target set, with £1.443 million of additional savings generated. These savings have mainly been used to fund additional costs incurred in other areas of NHS 24 resulting in the net underspend of £0.199 million.
54. The main reason for exceeding efficiency targets was through savings on staffing costs where a number of posts were not filled for all, or substantially all, of the financial year. Instead these roles were filled from the existing workforce. Many of the budgeted roles were set at a level which reflected a prudent level of demand for NHS 24 services. For example, during periods of bad weather the level of demand placed on the organisations staff can increase significantly. During 2011/12 the level of demand, particularly during winter was not as high as anticipated and therefore there was an underspend against budget.

Efficiency savings require to be identified for 2012/13

55. NHS 24's Local Delivery Plan is underpinned by its financial plan 2012/13 to 2016-17. The plan, presented to NHS 24 in March, identified key areas where savings would be required over the coming years in order for NHS 24 to deliver a balanced budget.
56. The 2012/13 savings plan is summarised below.

Diagram 2 – Savings plan



(Source: Board savings Plan 2011/12 – March 2012)

57. The savings plan included identified savings of £1.72 million. NHS 24 has yet to formally identify £0.778 million of savings which will be required if a breakeven position is to be achieved. The savings target includes the £3 million carry forward from 2011/12. The plan is based on the key assumptions discussed above. Whilst we appreciate that management takes a prudent approach to budget forecasting, the level of unidentified savings required from the above analysis are considerable.

58. The Strategic Best Value Group and the Efficiency and Productivity Network identify areas for possible future savings. The group are currently exploring a range of options in order to generate the level of efficiency savings required to deliver a balanced budget. With service redesign and SFLA implementation being rolled out across the organisation it will be important to ensure that there is a tight environment of operating cost control. We recommend that NHS 24 looks to identify areas where savings will be generated in 2012/13 and incorporates these within operational budgets as a matter of urgency.

Action plan point 6

Financial challenges ahead risk continued delivery of services within allocated resources

59. Our overall conclusion from our review of NHS 24's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that, whilst NHS 24 has a history of effective financial management, there are risks in this area in 2012/13 and beyond.
60. Achievement of future financial targets will be demanding, particularly with the impact of service redesign and SFLA programme. Achieving financial targets will depend on continued tight control of expenditure, delivery of very challenging savings plans and through the successful and efficient implementation of strategic change programmes.

National reports follow up

Targeted follow-up of Audit Scotland national study reports

61. We are currently undertaking a targeted follow up on the Audit Scotland national report on *The Role of Boards* (published September 2010). The report looked at the role of boards across the Scottish public sector operate and how they are accountable to the Scottish Government. It considered the skills and experience of boards and how they operate. The report was considered by the Audit Committee in December 2010, and formally considered by the Board at a workshop following the February 2011 Board meeting. The report included a self-assessment checklist that boards should use to assess themselves against.
62. We are working with NHS 24 as part of our ongoing audit programme to monitor NHS 24's response and development to deliver continuous improvement in light of the findings of the Audit Scotland report.

Best value – overall review

NHS 24 continues to develop its best value arrangements

63. We considered the overall arrangements in place at NHS 24 for achieving best value. We have summarised the findings of our evaluation within our *Overview of Best Value Arrangements* which has been reported to management. Our review found that NHS 24 is continuing to develop and improve its best value arrangements. NHS 24 set up a Strategic Best Value Group to oversee and lead on NHS 24's best value arrangements. NHS 24 is committed to identifying savings and improvements in service delivery and sees best value as a key tool to achieving this.

Performance

Introduction

64. This section of the report looks at performance management arrangements within NHS 24. An effective performance management system is a key component in the effective monitoring and management of public sector resources.
65. NHS 24 has in place a robust performance management framework. Performance is monitored by the Board at both an operational and corporate level. Operational performance is focused on operational service level delivery and ensures that management and the Board have a comprehensive understanding of the organisation's performance throughout the year. Corporate performance measures, NHS 24's performance against the core HEAT targets, local performance targets and quality strategy measures are set out within the Local Delivery Plan and are key measures of NHS 24's success in delivering the plan.

HEAT and performance targets

66. Performance against HEAT and other targets for 2011/12 was reported to the board of management at its meeting in April 2012. Almost 94% of NHS 24's targets are above target or within an acceptable tolerance level of the target (Table 6).

Table 6 – Overall progress against targets

Progress	Total	Achieved or exceed target	Below target
Health	1	1	0
Efficiency	3	3	0
Access	10	9	1
Treatment	3	3	0
Total	17	16	1

Source: Board Performance Reports(Key performance information only)

67. Overall NHS 24 reported strong non-financial performance during 2011/12. These indicate substantial progress being made towards delivery of the 2011/12 Local Deliver Plan objectives. Where NHS 24 did not meet its target related to the challenge of increasing the number of 'hits' on self care areas of the NHS 24 managed websites. Actual performance showed an increase of 11.4% against a target of 20%. The performance reported does not reflect new channels

launched during 2011/12. If the number of 'hits' included these channels, then access to self care information would have increased by 22%.

Governance

68. This section sets out the main findings arising from our review of NHS 24's governance arrangements as they relate to:

- systems of internal control;
- the prevention and detection of fraud and irregularity;
- standards of conduct; and
- prevention and detection of bribery and corruption

69. We are pleased to report that governance arrangements at NHS 24 remain effective. The board continues to receive regular and detailed performance and financial information which provides a good basis to facilitate scrutiny and challenge, as well as identifying the key risk factors which may impact on the achievement of financial and non-financial outcomes.

Systems of internal control

70. The Chief Executive has overall responsibility for maintaining a sound system of internal control and the Governance Statement included within the 2011/12 Annual Accounts disclosed no material internal control weaknesses.

71. To comply with the requirements of International Standards on Auditing (ISAs) and to facilitate an efficient audit, we have considered NHS 24's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the internal controls over the accounting systems to be generally well designed and operating effectively.

72. Our audit identified no issues which would give rise to a disclosure in the 2011/12 Governance Statement. This is in keeping with the findings of internal audit's annual review which found that NHS 24 continues to operate effective governance arrangements.

Risk management arrangements are robust

73. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

74. The Chief Executive has overall responsibility for risk management at NHS 24. Management of risks are delegated through the executive directors to senior management, lead nurses and heads of service. Operational risk registers feed into the corporate risk register which is the key tool used to monitor and manage risks facing the NHS 24. NHS 24 also has in place a strategic risk register. This identifies key risks to the delivery of strategic objectives.

75. The Audit Committee monitors the management of risks. This is supported through the Risk Management Steering Group and senior management. The strategic and operational risks registers are reported to the Audit Committee. All major and extreme organisational risks are reported to the board of management.
76. At an operational level the Operational Risk Management Group monitor the management of risk across NHS 24 with particular focus on operational risks. The Group act as a key component in ensuring that strategic and operational risks are disseminated across operational risk registers but also that operational risks are raised to a strategic level if appropriate. Alongside operational risk registers are specific project risk registers including the SFLA and service redesign risk registers. A Risk Management Group has been established to ensure that risks around these projects are being appropriately managed.
77. The risk management arrangements at NHS 24 appear robust. It will be increasingly important as the organisation goes through a period of substantial transformation, that risk management continues to underpin the decision making processes at NHS 24.

NHS 24's internal audit services are provided by PricewaterhouseCoopers

78. Internal audit is a key component of NHS 24's corporate governance arrangements. NHS 24's internal audit service is provided by PricewaterhouseCoopers (PwC).
79. In accordance with ISA 610 – Considering the work of internal audit, “the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.” Overall, we concluded that PwC provides a service which complies with Government Internal Audit Standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the PwC internal audit team for their assistance during the course of our audit work.

The impact of service redesign and frontline application transformation

80. Over the next two years, NHS 24 will roll out the new SFLA and service redesign programmes. These encompass the change in strategic frontline applications, IT infrastructure as well as a review of service delivery models. This will impact on service delivery, clinical decision support, patient record management and technology and the organisation's telephony platform.
81. It is essential that appropriate governance arrangements are put in place to facilitate the delivery of these changes. The Chief Executive, supported by key directors will lead the programme of change. This will be driven by a number of workstreams and monitored through a Future Service Programme Board. In April 2012, NHS 24 established a Future Service Committee. It is envisaged that this committee will operate over a period of 18-24 months and provide governance oversight of this major organisational change programme comprising a number of different elements within NHS 24.

82. NHS 24 will require robust management of the organisational change programme. Successful implementation will be a significant challenge to NHS 24 and the timescale for implementation of the SFLA and service redesign will be testing. The decision to incorporate two major changes (SFLA and service redesign) into one single programme, while avoiding duplication of training and transitional work, may create strain on existing workforce capability. There is considerable risk that management look to maximise the functionality of the new applications before allowing the approved applications to embed across the organisation. It is essential that clear objectives are defined at the outset of the programme to avoid any project drift through changing requirements of the applications.
83. The implementation programmes involve a range of key personnel from across NHS 24. While the involvement of key staff is important to ensure significant change programmes are implemented successfully there is a risk that there is not sufficient capacity, skills or experience within the existing workforce to deliver this level of change. NHS 24 must ensure that delivering these changes does not impact on frontline service delivery and that management maintains a clear focus on operational performance.

Prevention and detection of fraud and irregularity

84. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed NHS 24's arrangements to prevent and detect fraud and irregularity. We did not find any indication of fraud and irregularity and concluded that NHS 24's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

NHS 24 has adequate arrangements in place to enable it to take part in the National Fraud Initiative

85. We have confirmed that NHS 24 appear to have adequate arrangements in place to ensure data will be provided by October 2012 for the 2012/13 NFI exercise. Relevant data is in the process of being collated for the submission.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

86. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over registers of interest and disposal of assets. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the arrangements for prevention and detection of bribery and corruption.
87. Guidance is produced by the Scottish Government regularly throughout the year. NHS 24 has appropriate systems in place to demonstrate and record how Scottish Government Health Directorate (SGHD) circulars have been implemented.

88. The Future Service Committee will play a pivotal role in overseeing the planning, implementation and embedding of the new applications and infrastructure.

Looking forward

Finance

89. NHS 24 is projecting a breakeven position in 2012/13. However this is predicated on large in-year savings, including savings which have as yet been unidentified. Given the impact that external factors can have on service levels and operating costs such as widespread virus outbreaks, bad weather etc, NHS 24 historically takes a prudent approach to budget forecasting.
90. Delivery of future savings will continue to represent a challenge to NHS 24. Careful management will be required over the impact of significant levels of brokerage received over the next two financial years to support funding for the new SFLA. From 2014/15 NHS 24 will be required to repay over £20 million of brokerage funding through a reduction in RRL. This will lead to a significant strain on operating costs with savings targets identified for 2014/15 representing 6.6% of NHS 24's overall recurring RRL for the year. It is envisaged that savings through service redesign and the SFLA review will enable NHS 24 to meet its financial targets.

NHS Superannuation Scheme

91. NHS 24 participates in the NHS Superannuation Scheme for Scotland. This is a defined benefits scheme, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government securities. The Board is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents NHS 24's contributions payable to the scheme in respect of the year. The most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, we would have expected a more up to date valuation to have been reflected in the 2011/12 accounts. Furthermore, the periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the Scheme.
92. In common with all health boards in Scotland, the net liability figure for the Scheme, as disclosed in Note 24 is out of date. There is a risk that, as the level of contributions from employers and employees have not been recently reviewed there is uncertainty as to their adequacy to meet the future commitments of the Scheme.

Action plan point 6

Performance

93. HEAT targets will come under increasing pressure in the current financial operating environment. The challenge will be to operate sustainably whilst minimising the impact on performance and the quality of services.

94. NHS 24, in close partnership with Scottish Government, is continuing to look to develop further partnership working in Europe and with other health partners. Through the sharing of premises with NHS Grampian and the Scottish National Blood Transfusion Service from mid 2013, NHS 24 seeks to reduce energy costs and utilize the health estate.

Governance

95. To help NHS 24 address its pressures and challenges, both as a result of local and national issues, it is more important than ever that sufficient and appropriate leadership, scrutiny and challenge is in place to deliver the best outcomes for the public. Maintaining an effective governance framework will be key to the future success of NHS 24.
96. Over the next two years the SFLA and service redesign programmes will be rolled out across NHS 24 and become operational. The Chief Executive, supported by key directors will lead the programme of change. This will be driven by a number of workstreams and monitored through a Future Service Programme Board. The Board will play a pivotal role in overseeing the planning, implementation and embedding of the new applications, infrastructure and working arrangements.

Appendix 1 - Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our final audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. NHS 24 should assess these recommendations for their wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist NHS 24 in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

- Grade 5 Very high risk exposure - Major concerns requiring Board attention.
- Grade 4 High risk exposure - Material observations requiring management attention.
- Grade 3 Moderate risk exposure - Significant observations requiring management attention.
- Grade 2 Limited risk exposure - Minor observations requiring management attention
- Grade 1 Efficiency / housekeeping point.

Issues arising from our 2011/12 audit

No.	Title	Issue identified	Risk and recommendation	Management comments
1	Transactions with other NHS Scotland bodies (Para 23)	<p>Income recognised within the draft accounts did not agree with amounts included within the SFR 30 return and inter-board agreement letters. On further investigation, management identified that the draft accounts included a misallocation of income between receivables from NHS Boards and receivables – other which was subsequently adjusted in the accounts.</p>	<p>There is a risk that NHS 24 do not recognise all transactions with other NHS Scotland bodies within the accounts.</p> <p>While we are satisfied that income received from NHS bodies disclosed in the accounts is correct, we recommend that NHS 24 ensure that future inter-board agreements are based on income figures used to populate the accounts. These agreements should then form the basis of the SFR 30 note.</p> <p>Grade 3</p>	<p>NHS 24 will introduce a revised procedure for analysing income at each month end and allocating this against NHS and Other income as appropriate.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Deadline: Immediate</p>
2	Telehealth equipment (Para 28)	<p>2011/12 Telehealth equipment costs have been recognised as revenue expenditure during the year.</p>	<p>While we are satisfied with NHS 24's accounting treatment for this expenditure, it is important that the assets are appropriately managed and security is maintained.</p> <p>We are aware that NHS 24 is liaising with SGHD on the appropriate accounting treatment for Telehealth assets should significant costs be incurred in the future. We recommend</p>	<p>NHS 24 will confirm with SGHD that the current accounting treatment is appropriate.</p> <p>Responsible officer: Director of Finance & Technology</p> <p>Deadline: June 2012</p>

No.	Title	Issue identified	Risk and recommendation	Management comments
			<p>that these discussions should include agreement over who is responsible for management and ownership of the equipment.</p> <p>Grade 2</p>	
3	<p>Provisions (Para 33)</p>	<p>Under the terms of existing lease contracts, NHS 24 is required to ensure that the premises is returned at the termination of the lease to its original standard. NHS 24 recognise a dilapidations provision within the accounts to reflect the current value of the likely future cost of returning the assets to condition stipulated within the lease contract. During 2009/10 an independent valuation was conducted to determine the likely cost of bringing the assets into a suitable state of repair.</p>	<p>There is a risk that the valuation of the likely cost to bring the asset back to a suitable state of repair may be inaccurate or out-of date.</p> <p>We recommend that management ensure that the value of the provision is revisited more frequently to ensure that it remains an appropriate reflection of the likely future costs that NHS 24 will incur. This should avoid unexpected costs being incurred at the termination of the contract.</p> <p>Grade 2</p>	<p>Independent valuation will take place at more regular intervals to ensure that the provision remains appropriate.</p> <p>Responsible officer:</p> <p>Deputy Director of Finance</p> <p>Deadline:</p> <p>July 2012</p>
4	<p>Impairment of assets (Para 35)</p>	<p>During 2011/12 the NHS 24 impaired a number of IT assets an items of furniture and fittings with a total costs of £2.213 million (net value £0.028 million). Asset impairments are authorised through completion of a standard form. The form used is that same as that should the asset be disposed representing a</p>	<p>While we are satisfied that the transaction during 2011/12 represented an impairment we recommend that standard impairment forms are established by NHS 24 to distinguish these from normal impairments.</p> <p>Grade 2</p>	<p>A new form will be introduced for impairments to distinguish these from disposals.</p> <p>Responsible officer:</p> <p>Deputy Director of Finance</p>

No.	Title	Issue identified	Risk and recommendation	Management comments
		risk that the transaction is not appropriately recognised in the accounts or underlying accounting records as a disposal.		Deadline: July 2012
5	Efficiency savings require to be identified for 2012/13 (Para 58)	NHS 24 has yet to formally identify £0.778 million of savings which will be required if a breakeven position is to be achieved.	There is a risk that NHS 24 will fail to meet its 2012/13 financial targets. The Strategic Best Value Group and the Efficiency and Productivity Network are currently exploring a range of options in order to generate the level of efficiency savings required to deliver a balanced budget. We recommend that NHS 24 look to identify areas where savings will be generated in 2012/13 and incorporate these within operational budgets as a matter of urgency. Grade 3	Work continues, not only within the Strategic Best Value Group and the Efficiency and Productivity network, but in other Groups and Committees to identify further savings in order to meet the 3% recurring efficiency savings target. Responsible officer: Director of Finance and Technology Deadline: June 2012
6	NHS Superannuation scheme (Para 92)	The most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, we would have expected a more up to date valuation to have been reflected in the 2011/12 accounts	There is a risk that, as the 2008 actuarial valuation has not been completed, it is uncertain whether the current level of contributions from employers and employees will meet the future commitments of the Scheme. NHS 24 must work with the SGHD to ensure that the Scheme is subject to	NHS 24 will work with and be guided by SGHD and SPPA on how this issue will be taken forward at a national level. Responsible officer: Director of Finance and Technology

No.	Title	Issue identified	Risk and recommendation	Management comments
			<p>timely evaluation, and that the adequacy of the employer and employee contributions has been reviewed. NHS 24 should work with SGHD and Scottish Public Pensions Authority on how this issue will be taken forward at a national level.</p> <p>Grade 2</p>	<p>Deadline: Ongoing until 31st March 2013</p>



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