

NHS National Services Scotland

Annual report on the 2011/12 audit



Prepared for NHS National Services Scotland and the Auditor General for Scotland
July 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2011/12

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2011/12 we assessed the key strategic and financial risks being faced by NHS National Services Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit opinion on the financial statements of NHS National Services Scotland for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

NHS National Services Scotland achieved all of its financial targets in 2011/12. It achieved a cumulative surplus of £0.2 million as at 31 March 2012. The organisation's sound financial management arrangements include regular monitoring, reporting and updating of information to allow potential risks to its planned financial position to be addressed promptly.

NHS National Services Scotland also exceeded its Local Delivery Plan efficiency savings target by delivering £9.9 million of efficiency savings against a target of £8.0 million.

NHS National Services Scotland has a well developed framework in place for monitoring and reporting performance. In 2011/12 the organisation has met both of the mandatory HEAT targets and 51 of its 52 organisation specific contributory and customer targets set by SGHSCD. The remaining target, to approve the National Information and Intelligence Framework, is being progressed.

In 2011/12, NHS National Services Scotland had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. The organisation was also supported by an effective internal audit function and service audit arrangements.

Outlook

The position going forward is becoming even more challenging than previous years with further year-on-year reductions in baseline funding, continuing uncertainty around nationally funded projects, increasing cost pressures and challenging savings targets. SGHSCD has set differential cash efficiency targets for NHS National Services Scotland and three other Special Health Boards to improve efficiency and support funding of front-line services. For 2012/13, NHS National Services Scotland is planning to break even on its key financial targets and deliver forecast savings of £10.3 million. This will require continued monitoring of the financial position throughout the year to ensure that any emerging projected overspends are addressed at an early stage.

Beyond 2012/13, the delivery of savings from the QuEST programme will be critical to the achievement of a sustainable financial position. Achieving this goal will prove challenging and the board is likely to face some difficult decisions in the near future.

NHS National Services Scotland is continuing to align workforce planning with its financial and service plans and to reduce workforce costs through service design and restructure. Whilst NHS National Services Scotland is on target to meet staffing projections, the nature of the organisation with its ten specialised divisions means that projections at divisional level could change, favourably or unfavourably, as factors such as service requirements, demand and natural staff turnover come into play.

The significant challenges that the organisation will face in 2012/13 will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of NHS National Services Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS National Services Scotland.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHS National Services Scotland understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit and Risk Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
6. The management of NHS National Services Scotland is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Director's Report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of NHS National Services Scotland for 2011/12 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. NHS National Services Scotland is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
12. We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure; however we would draw your attention to the following issue.

Approval of Exit Packages

14. Under the NHS National Services Scotland's Standing Orders, the prior approval of the Remuneration Committee is required before agreeing to staff exit packages above £50,000 and placing staff on notice. During 2011/12 seven exit packages with a total value of £479,519 were approved by the Workforce Resourcing Panel prior to seeking the approval of the Remuneration Committee. This matter was reported to the Remuneration Committee which, following review of the packages, gave its approval in retrospect.
15. We are content that this oversight did not have any impact in terms of regularity as far as our audit opinion is concerned and that the packages individually and collectively were not material to the financial statements. NHS National Services Scotland has accepted that this represented a breach of procedures.

Accounting issues

16. The unaudited accounts were provided to us on 17 May 2012 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS National Services Scotland staff allowed us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit and Risk Committee on 20 June 2012 as outlined in our Annual Audit Plan.
17. A small number of errors were identified during the audit, where if adjustments were made these would have a net effect of decreasing by £37,000 net operating costs for the year shown in the Statement of Comprehensive Net Expenditure. The net impact on the balance sheet would be to increase net assets by £37,000. These errors were immaterial to the accounts as a whole. Officers in Finance decided not to adjust the accounts for these errors and we concurred on this.
18. As required by auditing standards we reported to the Audit and Risk Committee on 20 June 2012 the main issues arising from our audit of the financial statements. The main points were as follows:

Equal Pay Claims

19. The National Health Service in Scotland has received in excess of 10,000 claims in relation to equal pay legislation and 22 of these relate to NHS National Services Scotland. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
20. Developments over the past year have slowed the progress of claims and led to a reduction of claims going forward. The CLO have 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 any financial impact 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 that may further inform the position.

21. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, and the CLO to ascertain the appropriate accounting treatment of equal pay claims in 2011/12. Given the CLO's 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 Scottish NHS boards.
22. We continue to strongly encourage NHS National Services Scotland management, working with SGHSCD, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.
23. NHS National Services Scotland does not have a significant exposure to equal pay and has not received a significant number of claims. However, as with other boards, NHS National Services Scotland has not been able to quantify the extent of its liability for equal pay claims. Ultimately, there is a risk that these liabilities could have an impact on the board's financial position. The position will continue to be monitored by the board in the light of any advice issued by CLO or SGHSCD, and any impact on the financial position will be factored into the financial planning. However the impact is not expected to be material.

Risk Area 1

Agenda for Change

24. As at 31 March 2012, £6.7 million was accrued in respect of Agenda for Change payments for NHS National Services Scotland. This figure includes estimations based on NHS National Services Scotland's assumptions and refers to a range of staff posts and grades for National Services Division (NSD) commissioned services. There is also a provision within the accounts of £0.8 million. We note that this comprises arrears to be incurred which mainly relate to people who have already left the organisation and an amount for terms and conditions in relation to Agenda for Change. We sought and obtained formal assurance from the board, in a letter of representation, that the accrual and provision, in its judgement represents a prudent estimate of anticipated costs.

Redundancy Provision for GPASS

25. Within the 2011/12 annual accounts there is a provision for redundancy of £1.3 million in respect of the closure of the GPASS operations within National Information systems Group. This has reduced by £0.8 million from 2010/11. We reviewed the basis and value of the provision and are satisfied that it is not materially overstated. We will continue to monitor this issue during 2012/13 to ensure appropriate use is made of this provision.

Remuneration Report

26. The remuneration report for the year ended 31 March 2012 includes disclosure of the remuneration package of a former Director who retired in December 2011. The exit package given to the Director was subject to a confidentiality agreement. The decision to proceed with

disclosure was taken after consultation between the Director of Finance of NHS National Services Scotland and the Central Legal Office.

Higher Paid Employees Remuneration

27. The notes to the accounts include (at note 2b) the disclosure of the numbers of staff paid more than £50,000 per annum, stratified by bandings of £10,000. Due to the use of incomplete source data the figures for the year to 31 March 2011 were incorrectly stated in the prior year accounts and have required revision to both the total numbers of employees and the numbers in each banding. This was identified by NHS National Services Scotland staff during the course of the current audit. We have reviewed the revised figures and are satisfied that the disclosures have been appropriately restated.

Approval for losses

28. The Notes to the Accounts include (note 18) the details of losses above the delegated authority of the NHS National Services Scotland board. The disclosure for the year ended 31 March 2012 comprises of a salary overpayment of £17,000 and stock write offs amounting to £232,000.
29. Authorisation for the approval of the write-off of losses has been requested from the Scottish Government following the approval of the "Losses and Special Payments" by the Audit and Risk Committee at its meeting on 20 June 2012. In future it would be appropriate to bring this process forward to ensure that approvals have been received prior to the approval of the financial statements.

Other Accounting Issues

30. The following matters, although not material to the financial statements are drawn to your attention.

Payroll to Ledger Reconciliation

31. Prior to the audit commencing, we requested, as part of our working papers package, a year-end reconciliation between the payroll and the payroll figures in the general ledger systems. A reconciliation of this nature adds to the integrity of the payroll data in the financial statements by enhancing internal control and accounts preparation procedures. This was not initially provided as NHS National Services Scotland finance staff do not routinely prepare a year-end reconciliation between the two systems. When, at our request, the reconciliation was undertaken a variance of £0.6 million (0.5% of total payroll costs) between the two systems resulted. Finance staff have advised us that, in their view, this variance arises from journal entries and accruals in the ledger. Having reviewed the reconciliation and considered the explanation for the variance we consider this explanation reasonable.
32. NHS National Services Scotland produce monthly payroll to ledger reconciliations which ensure the integrity of payroll transfers. However, there are some subsequent manual transactions between ledger codes to reflect operational need which the monthly

reconciliations do not capture. We recommend that a full year-end reconciliation is undertaken between the two systems to improve internal control and year-end financial procedures.

Risk Area 2**Prior year adjustments - Donated Assets**

33. The 2011/12 FReM required boards to change the accounting treatment for donated assets which led to the removal of the donated asset reserve from their accounts. This requirement was a change in accounting policy which was reflected in the financial statements of NHS National Services Scotland with appropriate amendments made to prior year statements.

Heritage assets

34. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 boards were required to separately disclose any heritage assets. During 2011/12 NHS National Services Scotland conducted a review of non-current assets which identified that no such assets are held by the board.

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
37. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2012

38. NHS National Services Scotland is required to work within the resource limits and cash requirement set by the SGHSCD. In 2011/12, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.
39. The board achieved all its financial targets in 2011/12 as outlined in Table 1 below:

Table 1: 2011/12 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	347.0	346.8	0.2
Non Core	24.1	24.1	0.0
Capital resource			
Core	10.6	10.6	0.0
Non Core			
Cash position			
Cash requirement	353.0	352.1	0.9

40. NHS National Services Scotland has a cumulative surplus of £0.2 million against its revenue resource limit for 2011/12. It had budgeted to break even against its Revenue Resource Limit of £371.1 million. NHS National Services Scotland also exceeded its Local Delivery Plan

efficiency savings target by delivering £9.9 million of efficiency savings against a target of £8.0 million.

41. NHS National Services Scotland has well established procedures for monitoring financial performance through monthly budget monitoring meetings of divisional heads. Quarterly financial reports are considered by the Finance and Performance Committee and monthly reports go to the EMT and the board.

Financial sustainability and the 2012/13 budget

42. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.15% while the baseline revenue funding for 2011/12 was reduced by 1.8%. For 2012/13, the board's baseline revenue funding has been reduced by 0.7%. Given the current economic conditions and the impact of national spending priorities, there is also risk that funding uplifts will be lower in future years. These pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs. In March 2012 the board approved a 5 year financial plan reflecting the results of the Scottish Government's Spending Review.
43. The cost challenges facing the board are significant and in some cases there is an element of uncertainty about further potential increases in costs. The board plans to break even in 2012/13 and each of the following years to 2016/17. The Financial Plan notes that this position is based on:
 - the delivery of £48.3 million (£47.4 million recurring, £0.8 million non-recurring) savings over the 5 year period
 - an assumption of a £4 million year-on-year reduction in the baseline funding received from the SGHSCD, with particular risks highlighted around
 - agreement of earmarked and non-recurring funding for 2012/13
 - services that are provided by NHS National Services Scotland on a recurring basis but that are funded on a non-recurring basis and NHS National Services Scotland's ability to manage the cost reductions required by any changes to these funding allocations
 - the transfer of funding for the oxygen concentrator service passing to Health Boards, with existing baseline funding also being transferred
 - agreement of top-sliced funding to cover the national distribution centre running costs of National Procurement
 - Prion Filtration and the importation of FFP (fresh frozen plasma) will be mandated by SGHSCD and that the implementation and on-going costs will be funded
 - the baseline position for 2012/13 remains as advised by the SGHSCD and that for future years remains as indicated
 - the receipt of agreed additional funding in respect of Meridian Court

- the continuation of the property reduction plan with NHS National Services Scotland exiting further properties and increased sharing of the Gyle location by other special Health Boards
 - the costs of developing the SNBTS National Centre business case which it is now anticipated will be funded from revenue
 - the delivery of savings from the QuEST programme.
44. In 2011/12 the board's cost savings plan was pivotal to the board achieving financial balance. As stated previously in paragraph 40, the cost savings target of £8.0 million for 2011/12 was exceeded and NHS National Services Scotland delivered £9.9 million of savings.
45. The board's ability to achieve financial balance after 2012/13 is again largely dependent on it identifying how savings will be achieved from the QuEST programme and successfully developing and implementing a comprehensive cost savings plan. For 2012/13, the board needs to achieve £10.2 million of recurring cost savings which is the equivalent to 3.7% of the board's baseline revenue allocation. This represents a continuing challenge to the board and expenditure during the year will require to continue to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Risk Area 3

Workforce Reduction

46. The NHS National Services Scotland's workforce planning strategy was approved by the board in 2010. Progress against the plan is monitored by the board, the Executive Management Team and the Partnership Forum. Key challenges are reducing workforce costs against a background of low staff turnover and the need to maintain service delivery with fewer employees. Current projections are for a whole time equivalent reduction of 476 staff by 2016/17, 83% of whom are permanent employees.
47. NHS National Services Scotland has introduced several measures in order to reduce workforce costs, in particular:
- an approved Voluntary Severance Scheme under which 26 exit packages were agreed in 2011/12 at a cost of £1.1 million
 - establishing a workforce resourcing pool which will assist in reducing the need to recruit agency staff
 - initiating a workforce support programme to better identify and promote workforce skills and capabilities.
48. Whilst NHS National Services Scotland is on target to meet staffing projections, the nature of the organisation with its ten specialised divisions means that projections at divisional level could change as factors such as service requirements, demand and natural staff turnover come into play. Workforce management to date has been satisfactory but the largest staff reductions are planned for 2012/13 and 2013/14 which will require careful management. This challenge has been recognised in the corporate risk register where a new amber-rated risk has been raised for the delivery of the workforce plan.

Outlook

Significant financial risks beyond 2012/13

49. As reported above, the board's 2012/13 financial plan indicates that the board will be required to achieve cash savings of £48.3 million in the years to 2016/17 in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be extremely challenging as the majority of readily achievable savings initiatives will have already been identified in recent years.
50. There are significant assumptions underlying the forecast break-even position:
- the current projected position for NHS National Services Scotland excluding NSD is a deficit from 2013/14 onwards
 - the plan assumes that the deficit will be removed as a result of:
 - the QuEST programme (quality, efficiency, and service transformation), which is concerned with more closely integrating the diverse services provided by NHS NSS, both internally across the divisions and externally to stakeholders. Whilst an assumption has been made that that the QuEST programme will deliver recurring savings to reduce the deficit position, these savings have yet to be identified and may not transpire. If this should prove to be the case then NSS would experience revenue pressures which may be difficult to control within available resources
 - the progress made under the Accelerated Shared Services Programme which is dependent on satisfactory and timely engagement by partner bodies
 - the ability of NHS National Services Scotland to find sources of new income.
51. The delivery of savings through these activities is critical to the financial sustainability of the LDP. Progress to date is being monitored closely through the Organisational Change Portfolio Management Group which reports to the Board, and this appears to be an effective mechanism for keeping programmes on target. Management will continue to monitor these programmes closely to ensure that they can deliver the anticipated savings and do so within the desired timeframe.

Risk Area 4

Pension costs

52. Note 1 of the accounts, Accounting Policies, confirms that the most recent actuarial valuation for the NHS Superannuation Scheme was at 31 March 2004. The Scheme should be subject to a full actuarial valuation every four years and a more up to date valuation would have been expected to have been reflected in the 2011/12 accounts. However, while there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation would bring

clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

53. Following the advice of the Scottish Government, Note 24 of the accounts, Pension Costs, reflects a net pension liability of £1.5 million and is based on the most recent available actuarial valuation. In the circumstances, the disclosures in note 24 are considered to be satisfactory.

Governance and accountability

54. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
55. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
56. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
57. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

58. The corporate governance framework within NHS National Services Scotland is centred on the board which is supported by a number of standing committees that are accountable to it:

- | | |
|-----------------------|---------------------------|
| • Audit and Risk | • Staff Governance |
| • Clinical Governance | • Finance and Performance |
| • Remuneration | |

59. The following paragraphs provide a brief comment on the main standing committees including their roles and responsibilities:
- **Audit and Risk Committee:** the Committee assists the board in delivering its responsibilities by providing assurance that an appropriate system of internal control has been implemented and is operating effectively to address areas of risk for the organisation. The Committee reviews the risk register, which reflects an updated position on the organisation's risks, on a regular basis and reviews the work of the internal,

service and external auditors. During the year the Committee's remit was broadened to include responsibility for updating accounting policies. The Committee is attended by senior NHS National Services Scotland officers along with representatives from internal audit, external audit and service audit.

- **Staff Governance Committee:** the committee works to support and maintain a culture within NHS National Services Scotland where the delivery of the highest possible standard of staff management is understood to be the responsibility of every employee and is built upon partnership working and collaboration.
- **Clinical Governance Committee:** the Committee's remit is to provide an overarching governance of all clinical matters within NHS National Services Scotland including complaints, clinical risk, information security, quality of clinical service, freedom of information, data protection and records management. The Committee oversees NHS National Services Scotland's divisions to ensure that they have processes in place to monitor and report clinical governance issues, and to link clinical governance with risk management as prescribed in the NHS Quality Improvement Scotland (QIS) Clinical Governance and Risk Management Standards.
- **Finance and Performance Committee:** the Committee regularly reviews the financial and service delivery position of NHS National Services Scotland to ensure that suitable arrangements are in place to secure economy, efficiency and effectiveness in the use of all resources.
- **Remuneration Committee:** the Committee's remit includes conducting a regular review of the NHS National Services Scotland policy for the remuneration and performance management of executive directors and senior managers, agreeing their terms and conditions of employment and their performance objectives as well as ensuring that effective performance management processes are in place.

60. Two new non-executive directors were appointed to the Board as replacements for non-executives whose terms of office ended in 2010/11. Two executive directors left during the year, leaving four in office at the year-end.
61. Based on our observations and audit work our overall conclusion is that the governance arrangements within NHS National Services Scotland are operating effectively.

Patient safety and clinical governance

62. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist Boards in this area. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to make improvements. NHS HIS has not published any specific reports on the work of NHS National Services Scotland during 2011/12.
63. NHS National Services Scotland plays a key role in leading the fight against Healthcare Associated Infections (HAI) across Scotland. The Health Protection Scotland division carries out high-level surveillance and co-ordinates and supports outbreak responses nationwide. It

also develops guidance on issues like hand hygiene, which help NHS Boards to reduce avoidable infections. Health Protection Scotland monitors infectious and environmental hazards to public health and works with NHS Boards to limit any impact on health when such exposures cannot be avoided. This division also coordinates the delivery of seasonal flu vaccinations and other vaccines such as the HPV cervical cancer vaccine and provides expert advice on health protection issues to NHSScotland and the public.

- 64. The Health Facilities Scotland division ensures compliance with national cleaning standards, looking at cleaning methods, frequencies and protocols across NHSScotland. It also works with Boards on any improvement plans that are required as a result.
- 65. All NHS National Services Scotland's Organisational Change Programmes (a range of projects underway to modernise the organisation's various functions) now carry out a Healthcare Quality Impact Assessment in order to measure contribution to NHSScotland quality of care.

Working with Partners

- 66. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. NHS National Services Scotland plays a distinct role in the delivery of a wide range of national services and projects on behalf of NHSScotland. As such, it supports the work of every health board in Scotland in delivering key frontline services.
- 67. NHS National Services Scotland has recognised the importance of effective customer engagement and partnership working to achieving successful delivery of national projects. During 2011/12 the organisation has been pursuing a proactive shared service agenda with its partners, including the SGHSCD and the health boards, exploring several shared service options. There has been a focus on customer engagement this year as key to the above initiatives and a strengthening of relationships with key customers, not just at board level but below. However, the number of customer board sessions held as part of the annual customer engagement cycle, fell below target this year. Monitoring customer satisfaction with service provision is important: the success of the shared services programme will depend on effective customer engagement and partnership working. We will monitor developments into 2012/13.

Risk Area 5

Internal control

- 68. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 69. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2011/12 PricewaterhouseCoopers LLP, NHS National Services Scotland's internal

auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant concerns that required specific mention in the annual governance statement.

70. As part of our audit we reviewed the high level controls in a number of NHS National Services Scotland's systems that impact on the financial statements. This audit work covered cash and banking, trade payables, trade receivables, non-current assets, payroll, inventories and general ledger. Our overall conclusion was that NHS National Services Scotland's systems of internal control were generally operating effectively during 2011/12. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.
71. In addition to this work, in response to significant fraud in another public body, we carried out a high level review of the use of Government procurement and fuel cards. We identified that during 2011/12 the fuel cards were used to purchase £0.3 million of fuel; spend using government procurement cards was insignificant. Our review included an assessment of the adequacy of the internal controls in operation for the fuel card system and sample testing. We concluded that the controls over fuel cards were operating effectively and no significant issues were identified. We did find some minor control issues on the operation of procurement cards which were reported to the Director of Finance.

Internal Audit

72. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit in December 2011 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed some reliance on internal audits work on budgetary control and financial planning, risk management and performance management (SNBTS) and corporate engagement and communication. We had also planned to place reliance on internal audit work in the area of financial controls but when we reviewed the relevant internal audit report we found this work had focussed on budgetary controls and financial reporting rather than on key controls on systems underpinning the financial statements. We have discussed controls work being planned by internal audit for 2012/13 to identify which areas we can plan to place reliance on and thereby avoid duplication of effort.

Service Audit

73. NHS National Services Scotland is dedicated to providing health and business support services, direct clinical services and expert advice for NHS Scotland. As a part of this role NHS National Services Scotland provides a number of key services on behalf of other NHS bodies in Scotland. Where a third party organisation provides services that are likely to be relevant to user entities' internal control as it relates to financial reporting the organisation should provide a report detailing those controls and their operation. In order to provide

independent assurance the report should be accompanied by the report of a service auditor in accordance with International Standard on Assurance Engagements 3402 - Assurance reports on controls at a service organisation (ISAE 3402).

74. Auditing standards require auditors, where they intend to rely on the work of a third party, to evaluate the work of the third party to ensure that it is appropriately planned and conducted and supports the conclusions reached. In the interests of efficiency and to avoid duplication of effort, the Auditor General for Scotland requests the auditor responsible for the audit of NHS National Services Scotland to undertake a plan of work in areas where NHS National Services Scotland provides services to other NHSScotland bodies and to share the results of that work with the auditors of those bodies.

Service Audit - Practitioner Services Division

75. The Practitioner Services Division (PSD) of NHS National Services Scotland is responsible for calculating and making payments to primary care contractors on behalf of each health board within NHSScotland. Payment to primary care contractors accounts for more than 20% of the total health expenditure in Scotland.
76. NHS National Services Scotland has appointed Scott-Moncrieff as the Service Auditor of the payment processes operated by PSD. Their review, as directed by International Standard on Assurance Engagements (ISAE) 3402, provides assurance on the controls environment for processing practitioner data and paying primary care contractors. The report produced by the Service Auditor provided an unqualified opinion. The report notes six control issues in 2011/12 with one being classified as high risk. This relates to the prior approval and payment of individual claims to dentists exceeding £350 and had already been identified as a high risk in 2010/11. NHS NSS management is making changes to the Management Information and Dental Accounting System (MIDAS) which are currently being tested prior to implementation
77. Our review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit', and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance on the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing payments to primary care contractors within NHSScotland.

Service Audit - Financial Services

78. NHS National Services Scotland hosts certain financial services for a number of boards which are part of a consortium for shared services. All NSS consortium boards have now migrated over to Configuration 4 Single Instance of eFinancials version 3.4. This is in preparation for a move to a National Single Instance (NSI) of eFinancials version 4 in April 2013. At present it is unknown who will host these financial services, the "Tendering" process for a board to host is just about to commence.
79. In order to provide third party assurance to consortium members, NHS National Services Scotland has appointed PricewaterhouseCoopers LLP as the Service Auditor of its financial services arrangements. Their review, as directed by ISAE 3402, provides assurance to the

consortium boards on agreed control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion with three cases of minor weaknesses found in controls.

80. Our review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit', and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance on the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing Financial Services.

Service Audit - Payroll Services

81. During 2011/12 NHS National Services Scotland provided payroll services on behalf of three NHSScotland boards. PricewaterhouseCoopers LLP was appointed as the Service Auditor of this service. Their review, as directed by ISAE 3402, provides assurance to the relevant boards on agreed control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion with three cases of minor weaknesses found in controls.
82. Our review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit', and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance on the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing the payroll service.

Service Audit - National IT Services Contract

83. NHS National Services Scotland manages a range of IM&T services throughout Scotland as part of its delivery of NHSScotland's eHealth strategy. These are integral to the activities of all NHSScotland organisations and include the National IT services contract that is currently operated by the Atos Origin Alliance (AOA). Scott-Moncrieff was appointed as the Service Auditor to provide assurance to all NHSScotland organisations regarding the operations of AOA in supporting the National IT Services contract. Their review, as directed by ISAE 3402, provides assurance on the control environment within AOA, agreed control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion but noted a number of matters arising, three of which were high risk. AOA has committed to resolve these issues and their progress will be monitored by the services auditor and NHS National Services Audit and Risk Committee.
84. Our own review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit', and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance on the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in managing core aspects of the NHSScotland IM&T infrastructure.

Letters of representation

85. ISAE 3402 requires that the service auditor shall request the service organisation to provide written representations:

- that reaffirm the assertion accompanying the description of the system
 - that it has provided the service auditor with all relevant information and access agreed to; and
 - that it has disclosed to the service auditor any of the following of which it is aware:
 - non-compliance with laws and regulations, fraud or uncorrected deviations attributable to the service organisation that may affect one or more user entities
 - design deficiencies in controls
 - instances where controls have not operated as described; and
 - any events subsequent to the period covered by the service organisation's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's report.
86. ISAE 3402 also requires that the written representations shall be as near as practicable to, but not after, the date of the service auditor's assurance report. The written representations are confirmation from management that they believe they have fulfilled their responsibilities for describing the system of internal control and for the completeness of the information provided to the service auditor.
87. For the 2011/12 year the ISA 3402 written assurances to service auditors were issued on 23 May 2012, five days after the service auditor's reports were approved by the Audit and Risk Committee at its meeting on 18 May and after the final reports were provided to service users.

Risk area 6**Governance statement**

88. The governance statement, provided by the board's Accountable Officer, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. This is a new format of disclosure for 2011/12 as specified by the SGHSCD. The new format includes the requirement for an overt assurance that arrangements have been made to ensure Best Value. Overall it was concluded by the board that no significant control weaknesses or issues have arisen, that no significant failures have arisen in the expected standards for good governance, risk management and control, and that appropriate arrangements for Best Value are in place. Our audit has confirmed that we concur with this assessment.

Prevention and detection of fraud and irregularities

89. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
90. NHS National Services Scotland has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for staff and a range of policies that are available to staff via the intranet. The board has a partnership agreement with its division Counter Fraud Services (CFS) which is itself a partner organisation in the

Scottish Government's Strategy to Combat NHS Fraud in Scotland by developing and sharing annual and strategic proactive plans to assist health boards to counter fraud through proactive investigations, communication and training.

91. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The Audit and Risk Committee's terms of reference include responsibility for ensuring that all reasonable steps are being taken to safeguard assets and prevent and/or detect fraud and other irregularities, and these duties are supported by a Fraud Liaison Officer. The Committee discharges this responsibility by reviewing the Fraud Action Plan annually and the Register of frauds and other illegal acts, risk management arrangements and the corporate risk register quarterly.
92. It should be noted that no internal control system can eliminate the risk of fraud entirely. During the audit we drew management's attention to some weaknesses in controls over the payroll system and non-current asset register. Management has undertaken to address these matters, and overall we concluded that the board's arrangements were satisfactory in relation to the prevention and detection of fraud and irregularities.

NFI in Scotland

93. NHS National Services Scotland participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. Where matches are identified, public bodies are required to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved.
94. The most recent data matching exercise collected data from participants in October 2010 and the national findings were published by Audit Scotland in May 2012. Specific arrangements are monitored at a local level as part of the on-going audit. We concluded that the board's arrangements in preparing for and carrying out the 2010/11 NFI exercise were satisfactory. Whilst investigation of matches did not lead to any suspected cases of fraud, NHS National Services Scotland recognises the importance of the Initiative and, indeed, plays a key role on deterring and investigating fraud in the NHS through Counter Fraud Services, a division of NHS National Services Scotland.
95. Participants should now be preparing for the 2012/13 exercise where data will be requested by October 2012. The national report published in May 2012 includes a self-appraisal checklist that all participants were recommended to use prior to NFI 2012/13.

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

96. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and

monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS National Services Scotland are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Working with Partners

97. This is very much a developing area at a national level. In December 2011 the Cabinet Secretary for Health and Wellbeing announced the Scottish Government's plans to integrate adult health and social care across local government and the NHS. The main proposals are as follows:
- Community Health Partnerships will be replaced by Health and Social Care Partnerships (HSCPs) The partnership will be the joint responsibility of the NHS and local authorities, and will work with the third and independent sectors.
 - HSCPs will be accountable to Ministers, leaders of local authorities and the public for delivering new nationally agreed outcomes. These will initially focus on improving older people's care.
 - NHS Boards and local authorities will be required to produce integrated budgets for older people's services.
 - the role of clinicians and social care professionals in the planning of services for older people will be strengthened.
98. A smaller proportion of resources, money and staff will be directed towards institutional care and more resources will be invested in community provision. The Scottish Government launched a consultation on the integration of adult health and social care on 8 May 2012. The consultation sets out proposals to inform and change the way that the NHS and Local Authorities work together and in partnership with the third and independent sectors. We will monitor NHS National Services Scotland's involvement in these initiatives and progress in this area.

Best Value, use of resources and performance

99. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
100. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
101. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
102. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
103. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
104. This section includes a commentary on the Best Value / performance management arrangements within NHS National Services Scotland. We also note any headline performance outcomes / measures used by NHS National Services Scotland and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

105. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
106. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

107. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
108. Guidance on the Best Value Framework was issued to Directors of Finance on 19 October 2011 from the Chair of the NHS Corporate Governance & Audit Group.
109. NHS National Services Scotland is committed to best value and has arrangements in place to help ensure continuous performance improvement. The strategic focus is on achieving continuous improvement in performance and outcomes.
110. To ensure NHS National Services Scotland can demonstrate it is delivering key outcomes and achieving best value, the key strategic objectives of maximising health impact and financial impact have been a focus of activities in 2011/12. All services have been reviewed to ascertain the level of health impact and financial impact with performance against KPIs which demonstrate health and financial impact monitored at both mid-year and the year end.
111. In addition, elements of the 7 Strategic Enhanced Themes (7-SET) continuous improvement sessions require directors to demonstrate quality and innovation, increased efficiency and modernisation of working practices and will also identify areas for improvement.
112. During the year Internal Audit carried out two projects, Strategic Financial and Business Planning and Corporate Engagement and Communication, where best value toolkits were used as a basis for the assessment. On the former, Internal Audit found that the board was generally applying better or advanced practices in its business planning processes. On the second project, Internal Audit provided advisory recommendations in regard to the new corporate engagement model which is being developed by NHS National Services Scotland. Management responses to findings from both projects were positive and proactive.

Best Value Activity Review

113. In 2011 the board undertook a high level review to ascertain its position in relation to the duty of Best Value and associated Scottish Government guidance. The framework within this guidance was used to demonstrate compliance with each of the key themes (detailed in paragraph 106 above). The review concluded that the board has made good progress in achieving many of the areas identified within the framework but given the high level nature of the review further work would be required to provide any structured report or evidence.

114. The best value activity review was considered by the Audit and Risk Committee in May 2011 and members identified and agreed additional action to be taken within the board to comply with the duty of Best Value including the continued gathering of evidence and consideration of Best Value on an annual basis by the Committee.
115. A summary of results of the five key themes and two overarching themes considered by the board is outlined as follows:

Vision and leadership

116. The board has a clear vision and strategic direction. The board meets regularly to consider the plans and strategic direction of the organisation and executive and non- executive leadership are involved in regular strategic days which are used as a mechanism for setting direction and organisational strategy. The divisions within NHS National Services Scotland have business plans and strategies which are aligned to the board's overarching strategy and the board's Strategy Map outlines how strategic priorities and outcomes reflect Scottish Government national priorities.
117. NHS National Services Scotland has a well-established scrutiny process in place linked to its performance management framework. This includes monitoring and reporting on performance to the board and to the Executive Management Team, with regular divisional and departmental performance reviews taking place. The board also has an Integrated Risk Management Framework in place which is well embedded throughout the organisation.

Effective partnerships

118. NHS National Services Scotland works closely with all its partnership organisations, especially NHS boards, in the delivery of its services. Partnership working is embedded within the 7-SET and demonstrated through the annual review process.
119. Whilst there is evidence of partnership working with staff and internal and external stakeholders the board recognises that it is unable yet to provide evidence of the benefits of collaborating effectively with partners to impact on the health of the population. Work currently on-going by the board to improve customer relations may improve this.

Governance and accountability

120. The board has a robust corporate governance framework in place to not only manage delivery of, and reporting on, outcomes but also provide assurance to relevant stakeholders that there is an effective system of internal control in operation. The board has recently reviewed its corporate governance structures and agreed reporting to the board and Executive Management Team (EMT).
121. NHS National Services Scotland's strategic plan focuses on the delivery of outcomes and is translated into specific action to be carried out corporately. Divisional strategies take into account outcomes in line with the board's strategy and specific statutory responsibilities and are backed up by action plans. The board has adopted an outcomes based approach which

ties KPIs and strategic objectives in with outcomes which are linked to the Government's National Outcomes.

Use of resources

- 122. The board has a framework in place for planning and budgeting resources. Resource Allocation Meetings with divisions are key to this and guidance incorporates service, workforce and financial planning. There is regular financial reporting to EMT and review at divisional level. Financial risks are evaluated through the Integrated Risk Management approach and the Finance and Performance Committee which also allows the development of financial plans to be considered in more depth.
- 123. Workforce planning is improving in its maturity and it is becoming embedded throughout all parts of the organisation. The board has a Workforce strategy in place and staff undertake individual objective setting and personal development plans in line with organisational objectives. Processes are in place to ensure an integrated approach to workforce, service and financial planning.
- 124. The board has developed a Procurement Strategy and manual, and the Procurement Steering Board has responsibility for governance within this area. National Procurement supports the NHS in procuring goods and services and delivering savings across NHSScotland.

Performance management

- 125. NHS National Services Scotland has a well-established performance management framework in place for monitoring and reporting on performance. The Strategic Outcome Matrix (SOM) is a standard structure of performance management embedded throughout the organisation which is linked to strategy and outcomes. The board has also developed approaches to linking KPIs with its strategy.
- 126. Performance management and risk management are both routinely considered at divisional level at resource allocation meetings and at EMT. Each division self-assesses their own performance across a balanced scorecard format. To ensure that targets are challenging and meaningful divisions will set targets for the forthcoming year, looking at the previous year's targets and performance.

Equality and Sustainability

- 127. The two cross cutting themes of Equality and Sustainability are areas where the board recognise that further development is required. Equality is covered by legislation; however, the board requires to do further work to fully demonstrate staff training and awareness.
- 128. The board recognises that Sustainability is an area where it is less mature. Whilst the board's Environmental Strategy has been developed, further work is required by the board to demonstrate improvements in this area.

The Role of boards – follow-up audit

129. *The Role of boards – A follow-up audit* was carried out by local auditors in 2011/12 to assess the progress that NHS National Services Scotland has made to improve the performance and operation of its Board against the recommendations made in Audit Scotland's national performance report 'The Role of boards' (September 2010).
130. In carrying out the study we used a checklist based on the key issues identified in the national report and this checklist was discussed with management who provided supporting evidence as appropriate. Our findings indicated that the findings and recommendations of 'The Role of boards' report were considered by NHS National Services Scotland and that good progress has been made within NHS National Services Scotland in this area.
131. The board receives detailed information in relation to corporate performance, financial management and risk management on a regular basis. In recent months, steps have been taken to improve the effectiveness of the board's scrutiny in these areas, with the main changes being the implementation of board briefs and Board Development Sessions to improve board skills and focus, and the reorganisation of risks around more focussed risk categories.
132. Other work to help improve the effectiveness of the board includes the following:
- a skills matrix has been developed for identifying the skills of non-executive Board members and for use in appraisal and recruitment
 - NSS has invested in a tailored Leadership Development Programme which will be rolled out over a five year period across management.
133. The board should continue to progress the initiatives detailed in the follow-up report to ensure improvements in the operation of the board are achieved. In particular we would recommend that the board proceeds with the development of self-assessment tools for the board and its sub-committees and that these become embedded in annual governance processes.

Using locum doctors in hospitals – follow-up audit

134. *Using locum doctors in hospitals – a follow-up audit* was carried out by local auditors in 2011/12 to assess the progress that NHS National Services Scotland has made to implement the recommendations made in Audit Scotland's national performance report 'Using locum doctors in hospitals' (June 2010).
135. In successfully implementing the new agency contract, National Procurement and NHS boards have together generated savings to date of £5.3 million by negotiating reduced locum rates for health boards using the contract. In order to achieve this, they have overcome active resistance from the previous, dominant, market incumbent.
136. The quality and level of detail of the information on locum demand and spend which National Procurement provides to health boards has improved markedly over the period since 2010. As a result, boards are better able to benchmark their performance and identify areas of spend where they are out of line and could do more to reduce costs. The development of formal

performance indicators is the logical next step and further work is to be carried out, with the involvement of National Procurement, as part of the Scottish Government's Supplementary Medical Staffing initiative.

137. The 2010 report found that demand for agency locums had been increasing since 2006/07, but the ability of agencies to meet requests had fallen. National Procurement report that in 2011/12 contract agencies met 60% of health board demands for locums. There is insufficient data on non-contract agency fill rates to make any comparison. Total expenditure on agency locums reached £35 million in 2011/12 which represents a 30% increase on agency locum spend in 2008/09 (Audit Scotland report, paragraph 15). Note that at the time of writing the year-end figures held by National Procurement had still to be validated with the health boards.
138. Figures from National Procurement for 2011/12 show that less than half of spend was through the national contract (44%), a significant fall from 2008/09 when an estimated 67% of spend was on-contract (Audit Scotland report paragraph 29). We note however that contract spend has increased at a faster rate over the year (39%) than off-contract spend (21%), the latter having plateaued over this period, but it is too early to determine whether this trend will continue. National Procurement cannot of itself manage health board demand and it is the responsibility of individual boards to manage medical staff planning and spend.
139. NHS NSS National Procurement should continue to build on the progress it has made in bringing in the national agency contract and delivering savings for NHSScotland. Looking ahead, National Procurement has a key role to play in the development of national performance indicators around the procurement of locum doctors, improvement of fill rates on the national contract and supporting health boards in reducing demand for and expenditure on agency locum doctors.

Overview of performance targets in 2011/12

140. The NHS National Services Scotland board receives regular reports on progress towards achieving the key performance targets set by SGHSCD. For 2011/12 the LDP required NHS National Services Scotland to deliver against 54 targets, two of which were mandatory for all health boards and 52 which were specific to the NHS National Services.
141. In 2011/12 NHS National Services Scotland achieved both of the mandatory (HEAT) targets
 - NHS Boards to operate within their agreed revenue resource limit; operate within their capital resource limit; meet their cash requirement
 - NHS boards to maximise cash efficiencies to invest in frontline services.
142. NHS National Services Scotland also achieved 51 of the 52 contributory and customer targets including:
 - continuing to supply blood, tissues and cells required by the patients of Scotland
 - exceeding the targets for savings through improve procurement and logistic savings for goods and services
 - deliver payment registration and practitioner payments for primary care services

- reviewed and continued to provide national specialist services for the NHS in Scotland
- protect the NHS from fraud in line with the '4D's' strategy - detect, deter, disable, deal with
- deliver cost effective litigation, property, contract and employment legal services; and
- supporting NHS boards to reduce healthcare associated infection.

143. One of the 54 targets was not achieved. The National Information and Intelligence Framework has not yet been finally approved as planned, however this is anticipated shortly and planning is being dovetailed with the draft framework.

National performance reports

144. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

145. The board has a formal process to ensure that the findings of national reports relevant to the board are considered in detail to identify their potential impact and the board's progress in addressing recommendations locally. These reports are issued to the Chief Executive and the Director of Finance and circulated accordingly for appropriate action to be taken:

Table 2: A selection of National performance reports 2011/12

- | | |
|---|--|
| • Transport for Health and Social Care (Aug 2011) | • Overview of the NHS in Scotland's performance 2010/11 (Dec 2011) |
| • Scotland's Public Finances – Addressing the Challenges (Aug 2011) | • Cardiology services (Feb 2012) |
| • A Review of Telehealth in Scotland (Oct 2011) | • Commissioning social care (Mar 2012) |

www.audit-scotland.gov.uk

Scotland's Public Finances – Addressing the Challenges

146. The report highlighted that Scotland's public sector budget in 2011/12 for running costs and day-to-day spending is £27.5 billion, a drop of 6 per cent or £1.7 billion in real terms from £29.2 billion in 2010/11. Public bodies have budgeted for this in 2011/12, but they need to make significant savings during the year and there is a risk they won't achieve this due to cost pressures being greater than expected or unforeseen events. Public bodies are facing increasing pressures and demands, such as Scotland's ageing population, the effects of the recent recession, and the public sector's maintenance backlog. Meanwhile budgets will continue to drop; the planned 2014/15 budget of £25.9 billion will be 11 per cent, or £3.3 billion, smaller than in 2010/11. Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Many

bodies, including NHS National Services Scotland, are already going through the process of reducing staff numbers through recruitment freezes and voluntary severance schemes, and further reductions are planned. The impact of the financial pressures on NHS National Services Scotland and how it is responding to these is reported earlier in this report.

Overview of the NHS in Scotland's performance 2010/11

- 147.** The report indicated that healthy life expectancy in Scotland has increased and rates of deaths from coronary heart disease, stroke and cancer continue to fall. However, overall life expectancy in Scotland remains lower than that of most other western European countries and there remain significant health inequalities and long-standing health-related problems such as obesity, smoking, and drug and alcohol misuse. The NHS in Scotland spent £12 billion in 2010/11 and all health bodies met their financial targets. However, ten of the fourteen territorial NHS boards reported underlying recurring deficits. The service faces pressures from an ageing population, rising public demand and expectations, increased costs and reducing staff. Although the budget for the NHS in Scotland in 2011/12 is £232 million higher than 2010/11, this is a reduction in real terms due to inflation.
- 148.** NHS boards have strategies to make the service more efficient and effective and to help improve the quality of services they provide. Although information on hospital activity is good, the NHS in Scotland continues to find it difficult to measure productivity due to weaknesses in data and difficulties in linking costs, activity and quality. This is needed to identify how to improve services and the nation's health with the same or fewer resources.

Outlook

Performance

- 149.** Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the SGHSCD. The significant financial challenges that will be faced in 2012/13 and beyond may require the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	28 November 2011	9 December 2011
Annual Audit Plan	12 March 2012	23 March 2012
Internal Controls Management Letter	11 June 2012	20 June 2012
Payroll Services assurance letter	28 May 2012	20 June 2012
Practitioner Services Division assurance letter	28 May 2012	20 June 2012
eFinancials assurance letter	29 May 2012	20 June 2012
National IT Contract assurance letter	31 May 2012	20 June 2012
Best Value - Follow-up NHS NSS self-assessment	31 July 2012*	October 2012
Using Locum Doctors in Hospitals - Follow-up audit	By 31 July 2012	October 2012
The Role of Boards – Follow-up audit	By 31 July 2012	October 2012
Report to Audit Committee in terms of ISA 260	13 June 2012	20 June 2012
Independent auditor's report on the financial statements	29 June 2012	20 June 2012
Annual Report on the 2011/12 Audit	31 July 2012	October 2012

* Reported as part of the annual audit report

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	23.	<p>Equal Pay</p> <p>NHS National Services Scotland does not have a significant exposure to equal pay claims, but as with other health boards, it has not been able to quantify the extent of these claims.</p> <p>There is a risk that these liabilities will have an impact on the organisation's financial position.</p>	<p>The position will continue to be monitored in the light of any advice issued by CLO or SG, and any impact on the financial position will be factored into the financial planning. However the impact is not expected to be material.</p>	Director of Finance	Ongoing
2.	32	<p>Payroll to Ledger Reconciliation</p> <p>NHS National Services Scotland produce monthly payroll to ledger reconciliations which ensure the integrity of payroll transfers. However, there are some subsequent manual transactions between ledger codes to reflect operational need which the monthly reconciliations do not capture. We recommend that a full year-end reconciliation is undertaken between the two systems to improve internal control and year-end financial procedures.</p>	<p>The requirement to carry out a year-end reconciliation will be included in the annual accounts programme of work for next year.</p>	Head of Corporate Planning and Reporting	April 2013
3.	45.	<p>Financial position</p> <p>The board's ability to achieve financial balance is again largely dependent on it</p>	<p>Comprehensive savings plans are in place for 2012/13. These will be monitored</p>	Director of Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		successfully developing and implementing a comprehensive cost savings plan. For 2012/13, the board needs to achieve £10.2 million of recurring cost savings which is the equivalent to 3.7% of the board's baseline revenue allocation. This represents a major challenge to the board and expenditure during the year will require to continue to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.	throughout the year and reported monthly to the EMT and board.		
4.	51	<p>Service review</p> <p>The delivery of savings through the QuEST programme is critical to the financial sustainability of the LDP. Progress to date is being monitored closely through an Organisational Change Committee which reports to the Board, and this appears to be an effective mechanism for keeping programmes on target. Management will need to monitor these programmes closely to ensure that they can deliver the anticipated savings and do so within the desired timeframe.</p>	The QuEST programme will continue to be monitored by the Organisational Change Portfolio Management Group through development and implementation stages.	Chief Executive	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	66.	<p>Working with partners</p> <p>There has been a focus on customer engagement this year as key to the above initiatives and a strengthening of relationships with key customers, not just at board level but below. However, the number of customer board sessions held as part of the annual customer engagement cycle, fell below target this year. Monitoring customer satisfaction with service provision is important: the success of the shared services programme will depend on effective customer engagement and partnership working.</p>	<p>The Board Engagement programme will continue throughout the year. The success of this programme will be monitored by the EMT and action taken to address any issues if necessary.</p>	Chief Executive	Ongoing
6.	86.	<p>ISAE3402 written assurances</p> <p>The 2011/12 ISA 3402 written assurance letters to the service auditors were issued five days after the service auditor's reports were approved by the Audit and Risk Committee and after the final reports were provided to service users. These written representations are confirmation from management that they have fulfilled their responsibilities for describing the system of internal control and for the completeness of the information provided to the</p>	<p>This is an issue of process and not a risk for NSS as such. The risk lies with the service auditors for whom the letter of representation forms additional comfort to their findings and opinion.</p> <p>The issue will be raised with the service auditors.</p>	Controls Assurance Manager	Aug 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		service auditor, and should have been received by the service auditors prior to issuing their final reports to the Audit and Risk Committee.			