



NHS 24

Annual Audit Report to NHS 24 and the Auditor General for Scotland

June 2013



Scott-Moncrieff
business advisers and accountants

NHS 24

Annual Audit Report to the NHS 24 Board and the Auditor General for Scotland

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Executive Summary

Financial statements

Summary

The NHS 24 annual accounts are due to be approved by the NHS 24 board on 27 June 2013. We expect to report, within our independent auditor's report, unqualified opinions on the financial statements of NHS 24 for the year ended 31 March 2013 and on the regularity of transactions reflected in those financial statements.

Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2013 deadline. We received draft annual accounts and supporting papers of a good 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.

Use of resources

Financial performance

NHS 24 met all of its key financial targets for 2012/13. NHS 24 achieved a surplus against its Revenue Resource Limit (RRL) of £0.104 million. The financial performance included the delivery of efficiency savings of £1.720 million which is in line with the targeted amount.

NHS 24's operating performance in year generated a surplus of £1.604 million. This was primarily due to savings generated through lower than forecast workforce costs. During 2012/13 management agreed with SGHSCD to return £1.500 million of in-year financial brokerage funding to SGHSCD, resulting in a reduced surplus position of £0.104 million. Total net financial brokerage called down in 2012/13 amounted to £16.577m

NHS 24 has robust financial management arrangements in place. Management has identified efficiency savings of £2.955 million in 2013/14. The Board envisage that over £1.900 million of these savings will be generated through workforce efficiencies.

Future Programme

The Future Programme represents a major change in NHS 24's operations. The project will redesign how frontline services are delivered by NHS 24. We undertook a high level review of the programme to gain a clearer understanding of the progress made to date, how the governance structure has been implemented, including the effectiveness of the change control procedures, and to highlight any issues that need to be addressed in the final stages of implementation of the programme.

While significant progress has been made, there has been delay in completing the Future Programme. During 2012/13, the programme go live date was pushed back three months to September 2013. Our review identified a number of key issues for NHS 24 to consider as part of the final stages of implementation. These included the need to develop contingency plans should the programme fail to go live in September; establishing clear and objective acceptance criteria to be set covering all aspects of the implementation against which the Programme Board and Future Service Committee can assess evidence provided prior to approving go live at pre-determined milestone dates; and utilising the Scottish Government's Programme and Project Management

Centre with the aim of arranging for a Gateway 4 Review to provide assurance in advance of the above go live approval decision.

Performance

NHS 24 has a robust performance management framework in place. Directorates provide comprehensive performance information to management on a monthly basis. This information covers all performance indicators included within NHS 24's Local Delivery Plan. Both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets are included in NHS 24's performance management reports.

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 our audit identified no issues of concern in relation to governance.

Looking forward

The 2013-18 Local Delivery Plan (LDP) outlines NHS 24's key targets over the next three years. NHS 24's financial plans for the 2013/14 financial year includes £2.955 million of efficiency savings. Ensuring that planned efficiencies do not impact on frontline service delivery will be a key challenge to NHS 24 over the coming years.

Implementation of '111'

The Scottish Government announced in January 2013 that the NHS 24 unscheduled care telephone number will change from the current 08454 242424 number to 111, which will be free for the caller, in spring / summer 2014.

The new number does not represent a change in service delivery but may lead to an increase in call volumes and changes to call patterns, particularly in the initial period after launch. It will be important that the implementation of the new number is carefully managed and that NHS 24 has sufficient workforce capacity to maintain an effective service offering with the introduction of the new number.

Conclusion

This report concludes our audit of NHS 24 for 2012/13. 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 2013

Introduction

1. This report summarises the findings from our 2012/13 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 2012/13 have been:
 - An audit of the financial statements, including a review of the Governance Statement
 - A review of governance arrangements, internal controls and financial systems
 - Targeted follow up of Audit Scotland's *Scottish Public Finances: Addressing the Challenges*
 - A 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 2012/13:
 - External audit plan
 - Interim management report
 - Targeted follow up of Audit Scotland's *Scottish Public Finances: Addressing the Challenges*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 2012/13 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 there under. 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 2013; and
 - preparing a Directors' Report, an Operating and Financial Review, a 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.

Qualitative aspects of accounting practices and financial reporting

12. During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in the preparation of the financial statements are considered appropriate. Estimates and judgements have been adopted over property, plant and equipment depreciation rates and valuation of provisions. Where available, the Board have utilised the work of independent experts or industry norms to support the basis of estimate applied.
The potential effect on the financial statements of any uncertainties including significant risks and disclosures such as pending litigation.	The most significant risk facing NHS 24 is the successful delivery of the Future Programme. This along with other significant risks are considered in the Governance Statement. Financial risk factors are adequately disclosed in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are	From the testing we performed, we identified no unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
separately disclosed in the financial statements.	
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the financial statements and the directors' report.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	With the exception of the unadjusted misstatements shown at paragraph 20, there was no other disagreement over any accounting treatment of financial statement disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Overall conclusion

An unqualified audit opinion on the financial statements

13. The annual accounts are due to be approved by NHS 24 on 27 June 2013. We expect to report, within our independent auditors' report, unqualified opinions on the financial statements for the year ended 31 March 2013.
14. We are satisfied that the governance statement complies with the 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

15. 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 intend to issue an unqualified opinion on the regularity of transactions in NHS 24's accounts.
16. We have also concluded that the financial statements and the part of the Remuneration Report to be audited 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

17. We received draft annual accounts and supporting papers of a good 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.

18. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2013 deadline.

Audit and accounting adjustments

19. We identified some disclosure and presentational adjustments and these are reflected in the updated financial statements. We are pleased to report that there were no adjustments to the draft financial statements that have had an impact on the outturn against the Revenue Resource Limit (RRL).

Unadjusted differences

20. NHS 24 continues its involvement in the DALLAS programme (Delivering Assisted Lifestyles At Scale). The aim of the programme is to examine the use of new technologies to support people in their own homes and find out which innovative products, systems and services work best. During 2012/13, the Board incurred costs of £2.053 million on the project. We identified that £54,000 of the expenditure had been incorrectly recorded twice in the financial statements. We have raised an audit adjustment below to correctly recognise the actual costs incurred.

Table 1 – Unadjusted misstatements

	£000	£000	Net impact on comprehensive net income
	DR	CR	£'000
Accruals	54		
Expenditure		54	54
<i>Being adjustment to recognise expenditure on DALLAS project correctly</i>			
Potential increase in comprehensive income			54

21. A further adjustment was identified relating to public holiday entitlement for staff on maternity leave. This followed a recent employment tribunal decision. The impact of this decision has meant holiday entitlement for affected staff for the previous 5 years requiring recalculation. The impact is shown below:

	£'000	£'000	Net impact on comprehensive net income
	DR	CR	
Expenditure	39		
Accruals		39	
<i>Being adjustment to reflect holiday entitlement for staff on maternity leave</i>			
Potential decrease in comprehensive income			(39)

Key areas of audit focus and significant findings

22. We are required by international auditing standards to report to NHS 24 the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Balances with other boards

23. On an annual basis, boards should agree transactions throughout the year and outstanding balances at 31 March with other NHS Scotland bodies, including funding bodies. These agreements form the basis for SFR 30 returns included within the annual accounts template submitted to the SGHSCD.
24. While the SFR 30 note is not a statutory disclosure, the NHS Manual for Accounts outlines that the amounts shown in the note must agree with NHS receivables, payables and income reported in the accounts. Amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements. However, NHS 24 did not agree balances and transactions with the Mental Welfare Commission.
25. While the Board has not had any transactions or outstanding balances with the Mental Welfare Commission, to ensure completeness of accounting records, NHS 24 should ensure that formal confirmations are received from the Commission in line with SGHSCD guidance.

Financial system

26. NHS 24 is in the process of updating the general ledger system. The transfer to the new financial systems has progressed well.
27. We confirmed during our audit that the financial systems contain an accurate record of balances and transactions throughout the year.

Circular compliance process

28. Throughout the year the SGHSCD issues circulars and letters to boards containing key guidance, advice and often specific requirements that the Board must adhere to. Previously, NHS 24 had maintained a database of all circulars received as well as information around who was responsible for responding to the circular (if required) and what (if any) action had been taken in response to the circular.
29. During our testing we identified that whilst key applicable guidance was being followed, the database had not been maintained in the final month of the financial year. We understand that this was due to changes in key personnel during the year. The database acts as a key control for ensuring that timely action has been taken to address any issues or recommendations raised in the circulars to ensure that NHS 24 continue to follow appropriate regulations.
30. We recommend that management put arrangements in place to maintain the database of circulars received and ensure that there is a formal process in place for ensuring compliance with these.

Action plan point 1

Nominal ledger

31. The Financial Operating Procedures outline that any supporting information for journal entries should be attached to the back of the journal and filed in the current period's journal file. During our audit testing we identified instances where supporting documentation had not been attached to the journal. There is a

risk that journals are raised and authorised without appropriate documentary evidence to support the journal entry.

32. We recommend that management ensure that, where appropriate, journal entries are supported with appropriate documentary evidence.

Action plan point 2

VAT returns

33. On a monthly basis NHS 24 is required to submit VAT returns to Her Majesty's Revenue and Customs (HMRC) outlining both input and output VAT. These form the basis of regular VAT payments or receipts. While VAT returns are required to be submitted by the end of each month, NHS 24 has utilised the seven day extension afforded to organisations who submit their returns on-line.
34. We found during our audit testing that on one occasion during the year the VAT return was not submitted in line with this timescale. There is a risk that if NHS 24 fail to submit VAT returns to HMRC in a timely manner they may be subject to a fine or penalty. We recommend that management ensure arrangements are in place for timely submission of future VAT returns.

Action plan point 3

NHS Superannuation Scheme

35. NHS 24 participates in the NHS Superannuation Scheme for Scotland. This is a defined benefit scheme, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government securities. NHS 24 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 recently published 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, a more up to date valuation should have been received by now and reflected in the 2012/13 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the Scheme.
36. As a result of the delay in finalising the valuation of the NHS Superannuation Scheme, and in common with all health boards in Scotland, the net liability figure for the Scheme, as disclosed in Note 20 to the financial statements is out of date. There is a risk that the liability is understated and therefore the current level of contributions from employers and employees may not be adequate to meet the future commitments of the Scheme.

Use of resources

37. 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 2012/13

NHS 24 has met its key targets in the year

38. NHS 24 is required to work within the resource limits and cash requirements set by SGHSCD. 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 – Core	83,388	83,285	103	Yes
Revenue Resource Limit – Non-core	2,836	2,835	1	Yes
Capital Resource Limit	600	586	14	Yes
Cash Requirement	84,000	83,649	351	Yes

(Source: 2012/13 Annual Accounts)

39. NHS 24 achieved a surplus against its Revenue Resource Limit (RRL) of £0.104 million.
40. NHS 24's operating performance in year generated a surplus of £1.604 million. This was primarily due to savings generated through lower than forecast workforce costs. During 2012/13 management agreed with SGHSCD to return £1.500 million of in-year financial brokerage funding to SGHSCD, resulting in a reduced surplus position of £0.104 million.

In year Future Programme costs being met through a combination of financial brokerage and NHS 24 savings

41. During 2012/13, NHS 24 incurred costs of £23.692 million on the development of the new Strategic Frontline Application (SFLA) as part of the Future Programme. The cost of implementation will be met by NHS 24, through a combination of in year savings programmes and brokerage funding. The brokerage support from SGHSCD will then be repaid between 2014 and 2017. NHS 24 envisage that the savings generated through the new programme contracts will enable the Board to meet these repayments.
42. The in-year spend was funded through brokerage funding of £16.577 million in the year. This was after £1.500 million of earmarked brokerage funding was not drawn down from SGHSCD in year, reflecting the Boards ability to make the payments through in-year savings. The remaining expenditure was funded by the £3.000 million of underspend brought forward from 2011/12, £1.700 million from the 2012/13 NHS 24 efficiencies plan and £1.400 million being an underspend in year on frontline staffing. Table 3 below shows how NHS 24 met the SFLA development costs in the year.

Table 3 – Delivery of SFLA expenditure in year

	£000
Brokerage funding received in year	16,577
Efficiency savings	1,720
Frontline staffing savings	1,400
2011/12 carry forward in RRL	3,000
In year savings against SFLA budget	995
Total available resource in 2012/13	23,692
Total expenditure on SFLA implementation	23,692

43. We have analysed NHS 24's 2012/13 outturn into recurring and non-recurring items, as shown in Table 4.

Table 4 – Achievement of 2012/13 surplus

	£000
Recurring income	83,388
Recurring expenditure	(85,005)
Recurring savings	<u>1,720</u>
Underlying recurring surplus	103
Non-recurring income	2,836
Non-recurring expenditure	(2,835)
Non-recurring savings	<u>0</u>
Non-recurring surplus/(deficit)	1
Financial surplus/(deficit)	104

(Source: March 2013 MMR / Financial statements)

44. Table 4 shows that NHS 24 achieved an underlying recurring financial surplus of £0.104 million and that cash releasing efficiency savings of 3% of the baseline funding were achieved in 2012/13. NHS 24 adopt a prudent approach to financial plans while ensuring that forecasts remain as accurate as possible. Consequently NHS 24 has sufficient flexibility to respond to changing needs or pressures in the year.

Accuracy in initial financial forecasts

45. While facing significant costs pressures, particularly around the implementation of the SFLA, NHS 24 has continued to deliver its financial targets. Both in the current year and in the previous year, NHS 24 has met its targets through the achievement of efficiency savings, particularly around workforce costs.

Management take a prudent approach to forecasting the workforce requirements that it will need and due to the volatile nature of the level of services required from the board, particularly over the winter period, NHS 24 must have sufficient staffing capacity to respond quickly to increased demand. Over the last two years the level of actual demand has been significantly lower than budgeted. Consequently, the level of costs incurred has been lower than planned. In particular vacancies have remained unfilled throughout the year without having a detrimental impact on service delivery.

- 46. As part of the Future Programme NHS 24 is revising its service delivery model. This will deliver service improvements for patients and will support staff to provide better patient care. There will be a resulting re-balance of the staff skill sets involved in the provision of direct care and support.

Capital Resource Limit

NHS 24 delivered a breakeven position against CRL for 2012/13

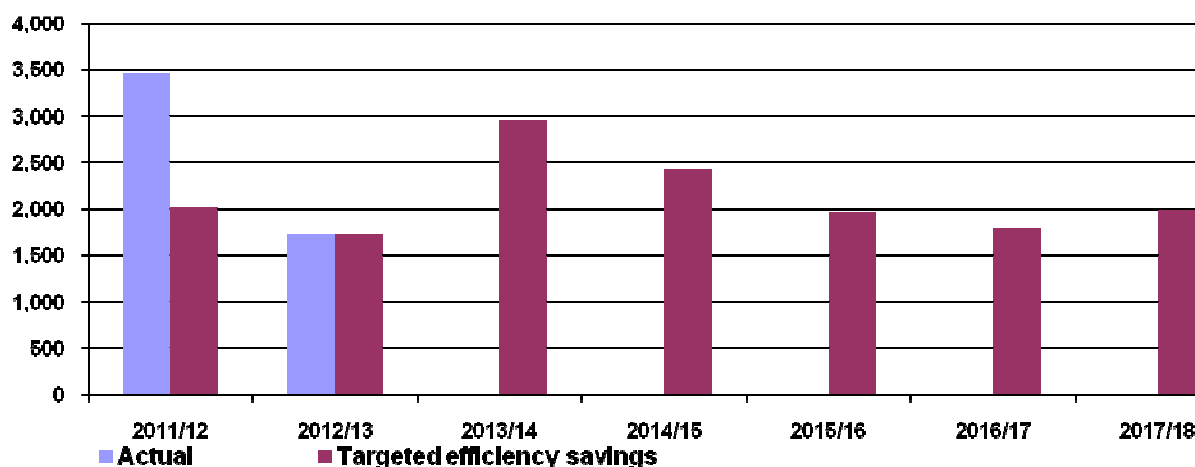
- 47. NHS 24 generated a £0.014 million underspend against its CRL in 2012/13 with total capital expenditure of £0.586 million. This is an increase of £0.327 million over the 2011/12 capital spend. The capital expenditure predominantly related to the purchase of existing clinical content to use on the new frontline system at a cost of £0.300 million. The remaining spend of £0.286 million was predominantly for a Development Environment for the new frontline system and expenditure on an upgrade to the Total view workforce system.

Financial plans

The 5 year financial plan reflects the increasingly challenging financial climate

- 48. Diagram 1 shows the significant level of further efficiencies required to maintain a balanced budget as set out in NHS 24's 2013-18 financial plans. The financial plans are continually revised, in collaboration with SGHSCD, to achieve a sustainable position. NHS 24 is clear that further cash savings have still to be identified in response to this situation.

Diagram 1 – Targeted efficiency savings



(Source 2013 – 18 Financial Plan)

Funding

49. NHS 24's 2013-16 financial plan assumes future increases of approximately 1% for the next two years and 0.8% for the following three years in RRL allocations.

Cost pressures

Cost increases exceed funding increases

50. NHS 24 faces very significant financial challenges in the coming years. NHS 24's 2013-18 Financial Plan is an integral part of the Local Delivery Plan. NHS 24 must manage a wide variety of challenges such as demographic changes, pay modernisation, price increases and more general health improvement initiative costs. The financial plan for 2013/14 has been constructed on the basis of the financial assumptions shown in Table 5.

Table 5 - Price increase assumptions

Assumptions	2013/14
Resources	1.00%
Supplies	0.00%
Pay – general*	1.00%

* Reflects impact of future contract costs savings of frontline application.

(Source: 2013 -18 Financial Plan)

51. Cumulatively the difference between additional funding received and cost pressures, pay increases etc is a shortfall of £2.955 million for 2013/14. NHS 24 is committed to delivering a balanced budget for 2013/14 and has agreed savings plans in place to meet these balances. Over the next five years, NHS 24 will deliver a balanced budget through recurring savings against RRL. These will be offset against non-recurring deficits, incurred through the cost of implementing the Future Programme and brokerage repayments.
52. These assumptions appear reasonable and consistent with our understanding of NHS 24's financial position and the wider health sector and have been incorporated into NHS 24's Local Delivery Plan.

Savings plans

Savings targets were exceeded in 2012/13

53. NHS 24's £1.720 million of savings were delivered through a mixture of specific efficiencies highlighted at the start of the financial year and "in-year" programmes.
54. Management monitor delivery against savings plans throughout the year and these are incorporated into budget reporting arrangements.
55. A range of savings initiatives have been identified to deliver the level of required savings over the coming years and there appears to be a positive culture within the organisation to deliver these. While senior

management take a lead role in driving efficiencies, savings programmes involve management and staff across the organisation.

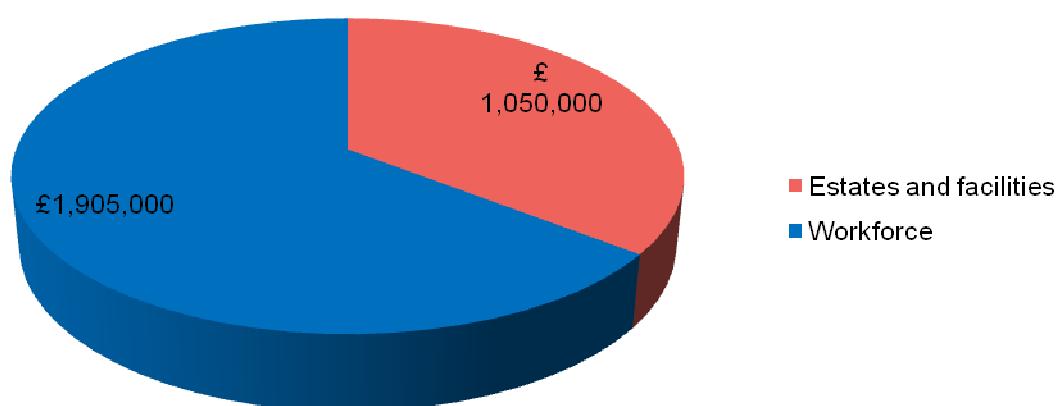
Robust budget monitoring arrangements are in place

56. The financial implications of specific savings plans are reflected in the relevant budget areas. Previously efficiency savings targets were allocated universally across budget codes. The revised arrangement ensures that there is a clear expectation at the start of the year as to where efficiencies will be achieved and enables robust monitoring of delivery against these.
57. Budget monitoring reports are considered in detail at a directorate level with individual budget codes subject to regular challenge on delivery against financial targets. There is a focus on continuous improvement. Budget areas which have failed to meet previous years' targets are expected to deliver these, along with any current year savings, within the new financial year.

Further savings will be required over the coming years

58. NHS 24 has undertaken a comprehensive review of the savings required between 2013 and 2018. On an annual basis the required savings are evaluated in detail as part of the budget setting process and formally agreed with SGHSCD. To deliver a balanced budget for 2013/14 NHS 24 has identified required savings of £2.955 million. Future savings plans are predominantly expected to be delivered through workforce cost savings. The plan is summarised below.

Diagram 1 – 2013/14 Savings plan



(Source: Board Financial Plan 2013-18)

59. NHS 24 has historically been able to meet its saving targets and the directors are confident that, based on existing funding assumptions, these will continue to be delivered. NHS 24's financial plan includes a number of key risks to the delivery of the plan, including:
- Failure to successfully develop and implement the Future Programme in line with established plans resulting in NHS 24 being contractually obliged to meet financial commitments while incurring additional costs to maintain service delivery under existing arrangements;
 - Failure to achievement medium to longer term efficiency savings plans;

- The impact of the introduction of '111' number resulting in a higher than forecast increase in call volumes which would lead to a potential increase in staffing requirement and subsequently staffing costs; and
- That financial challenges and pressures will result in NHS 24 being unable to repay the financial brokerage funding to SGHSCD in line with timeframe established within the LDP return. In 2011/12 NHS 24 received brokerage of £0.320 million. A further £16.577 million was received in the current financial year with a further £1.659 million to be received in 2013/14, taking the total brokerage to £18.556 million. Per the Board's LDP, this will be repaid over the following three financial years ending in 2016/17.

60. While the directors have identified areas where efficiencies can be generated to ensure that NHS 24 continue to meet its financial targets, there are key risks and challenges to the successful delivery of these. During 2012/13, the level of financial brokerage received represented just under 25% of NHS 24's base annual resource allocation. The Board's ability to repay this level of funding is reliant on the successful implementation and delivery of the Future Programme over the coming years and in particular the board's ability to realise the savings envisaged in the original business case used to support the decision to undertake the programme.

National reports follow up

Targeted follow-up of Audit Scotland national study reports

61. As part of our annual audit work for 2012/13, we will undertake a targeted follow up on the Audit Scotland national report on Scotland's public finances: addressing the challenges. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2011/12 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In line with the timetable set out by Audit Scotland, we are working with management 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.

Overall conclusion on financial management and use of resources

- 62.** The 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 NHS 24 has effective arrangements in place for financial management and the delivery of best value in the use of resources.
- 63.** Notwithstanding this, there are substantial risks in this area in 2013/14 and beyond and achievement of future financial targets will be extremely demanding. Robust operational planning and performance monitoring arrangements remain essential to ensure delivery of financial plans without jeopardising the quality of service being delivered.

Best value

Delivering best value is a core part of NHS 24's service delivery

64. In 2011/12 Scott-Moncrieff undertook a high level review of NHS 24's best value arrangements. Our review assessed the extent to which NHS 24 was able to monitor and oversee its delivery of best value. NHS 24 set up a Strategic Best Value Group to oversee and lead on its best value arrangements. This Group is led by the Chief Executive and reports regularly to the Executive Team and Board of NHS 24. The work of this Group has ensured that NHS 24 is continuing to embed best value across the organisation. Our 2011/12 review found that NHS 24 was continuing to develop and improve its best value arrangements. Our report noted that NHS 24 was committed to identifying savings and improvements in service delivery and saw best value as a key tool to achieving this.
65. In 2012/13, NHS 24 is still keen that best value is seen as being a core part of service delivery but also that it is not just about financial savings. To help demonstrate how best value is being delivered across the organisation NHS 24 developed a best value assessment template. This template was trialled on six areas within the business, including the patient reminder service and telestroke services. The template assessed the extent to which services were delivering against each of the seven themes of best value. The findings of these toolkits were reported through the Strategic Best Value Group to the Executive Team.
66. It was not a formal requirement to audit NHS 24's best value arrangements as part of this year's audit. We have agreed with NHS 24 that we will revisit this area in 2013/14, potentially with a view to assessing how NHS 24 is delivering and supporting best value within the wider Scottish Government policy agenda.

Future Programme

Introduction

The Future Programme represents a major change in NHS 24's operations

67. In early 2012, NHS 24 combined two major change programmes - the Strategic Frontline Application (SFLA) and the Service Redesign Programmes – and subjected them to a single governance structure to ensure that these co-dependent programmes were delivered simultaneously. The combined programme, represents a major change in the organisation's operations and was recognised as high risk from the outset due to its scale and complexity. It was therefore subject to a sophisticated governance structure which included:

- Future Service Committee – chaired by a NHS24 Non Executive Director, whose role is to provide governance oversight and to provide assurance to the NHS 24 Board
- Future Programme Board – led by the Chief Executive and tasked with ensuring the Programme remains on track to deliver the stated objectives and outcomes, to approve or challenge ongoing continuation of the programme at key milestone points and to ensure the Programme has sufficient resources to deliver
- Programme Management Office – providing support and facilitation to the workstreams and Programme Board
- Risk Management Group – responsible for monitoring programme risks
- Technical Design Authority and Change Control Board – responsible for the review and approval of technical designs and any related change control notices (CCNs) prior to their final approval by the Future Programme Board
- Multiple workstream delivery teams focused on the management and delivery of core elements of the programme
- Key stage reviews for which fieldwork was undertaken by PwC in October 2012 and February 2013 and reported to the Programme Board in December 2012 and March 2013

68. We undertook a high level review of the programme during the week beginning 20 May 2013 to gain a clearer understanding of the progress made to date, how the governance structure has been implemented, including the effectiveness of the change control procedures, and to highlight any issues that need to be addressed in the final stages of the programme. We have not reviewed the procurement process that was used to appoint BT and Cap Gemini for the SFLA contract and, where possible, have sought assurance from the work of the internal auditors, PwC, to minimise any duplication of effort.

Programme Progress

Although delayed, NHS 24 has made significant progress to date in delivering the ambitious Programme.

69. Considerable progress has been made in the delivery of this complex and ambitious programme. Much of this progress has been as a result of the commitment and leadership shown by the Senior Executive Team and, in particular, the Chief Executive. Through the Programme Board, pressure has been maintained on all parties to meet the challenging “go live” deadline which was originally set as 27 June

2013. However, during early 2013, it became apparent that, despite best efforts, this deadline was not going to be met and a re-planning process was undertaken, resulting in a revised deadline of 5 September 2013. This was still recognised as challenging with little if any slack within the plan for any delays.

70. The need for an extension was primarily caused by delays in the completion of the infrastructure and approval of the detailed designs of several elements of the SFLA. The contract for the delivery of the SFLA was defined through the use of specified outcomes rather than specific functionality required. This was done in order to benefit from the expertise of the suppliers in achieving desired results rather than simply the provision of a technical programming resource. However, this approach also resulted in the detailed design phase being incorporated within the programme delivery. While the majority of the detailed design was delivered on schedule there were a number of areas which were not finally signed off until early 2013.
71. To try and compensate for this delay in completing the design, work was started on building those elements which had been signed off by the Design Authority. This parallel working helped reduce the impact of the delay. However, despite these efforts, the decision was made by the Programme Board to re-plan based on a 5 September go live date.
72. Progress has continued apace with the key stage of testing currently underway. In meeting the revised go live date further parallel working has been adopted for some of the System and User Acceptance testing. The risks of this approach have been recognised and the position is being monitored by the Programme Board.

Next steps

Total estimated contract cost is £76.195 million, £2.724 million above the original full business case.

73. While the detailed design has been approved there remain a number of Change Control Notices (CCN) awaiting approval. While most are in relation to relatively minor changes the potential impact these may have on the commercial arrangements has not yet been fully assessed. Again the risks arising from these outstanding CCNs have been recognised. A revised total project budget was prepared for the Future Services Committee showing an increase in the approved contract value to £76.195 million. This is £2.724 million above the original full business case and compares to the original contract value of £71.671 million.
74. The current plan identifies a go live of all NHS24 services on the new technology platform on 5 September, with the delivery of some non-essential but desirable additional functionality at a later date. Planning for the complete delivery of the final full functionality is currently underway.
75. Similarly the delivery of the Single Common Triage System (SCTS) will be completed after 5 September and is subject to final discussions with the Scottish Ambulance Service.
76. Within PwC's Key Stage Review of March 2013 they quantified the double running costs arising from a delayed go live date to September 2013 and similarly for the position should the go live date be delayed to February 2014. It is recognised that these costs are subject to negotiation but PwC recommended some scenario planning to consider how double running costs would be impacted.

77. Much of the financial negotiation of the programme has been led by the Director of Finance and Technology who is retiring in July. The Director of Finance and Technology has a detailed knowledge of the contracts and the negotiations undertaken to date. It is critical that this knowledge is either transferred or at least readily accessible beyond his retirement. In particular, we would concur with PwC's recommendation to undertake scenario planning to clarify potential final cost implications but would widen the scope beyond simply double running costs to include outcome of the commercial negotiations in respect of the outstanding CCNs.

It is essential that NHS 24 clearly define in detail what the targeted benefits of the Future Programme will be.

78. In their Key Stage Review PwC identified a need for an integrated vision for the Future Programme having noted that an integrated Business Case was not prepared when the two original programmes were combined. In response the Future Services Committee was presented with a Future Programme Vision Statement at their meeting on 15 May 2013. This paper lists both the strategic aims of NHS 24 which would be addressed by the programme, and lists the detailed and measurable benefits which are to be used to assess the success of the programme.

79. In addition to the above Vision statement, setting out the ultimate benefits to be achieved, the Chief Executive and the Programme Board have also been very clear that the Future Programme will not go live until they are assured that each member of the frontline staff is appropriately trained and confident on the new system. They have also been clear that this will require positive responses in the following areas:

- Is the technology working?
- Are the clinical processes and content safe and effective?
- Have all the staff been coached and are ready?

80. While there are controls in place to allow workstream leads to provide their individual opinions on each of these there is a lack of explicit objective assessment criteria which will be used by the Programme Board and the Future Service Committee to support their decision to go live or not. Similarly there are currently no specific milestones contained within the project plan at which this decision needs be made.

81. Should the decision be to delay the go live date there are no contingency plans in place to extend the current arrangements beyond the current contractual limit of 30 September. We understand planning is currently underway to cater for a "failed" implementation resulting in the need for a "rollback" to occur. These latter procedures should be fully tested as part of the final system implementation rehearsals.

82. We recommend that clear and objective acceptance criteria be devised for each of the delivery areas and a series of defined assessment dates be set from now to the scheduled go live date at which the evidence for each criteria is assessed. These dates should include at least two at which the Future Service Committee are involved to reflect the NHS 24 Board's ultimate responsibility for the successful delivery of the Programme. To provide further assurance for this decision we also suggest engaging with the Scottish Government's Programme and Project Management Centre of Expertise to undertake a Gateway 4 Review as recommended by the Scottish Public Finance Manual. This review is designed to provide an independent and objective assessment of an organisation's readiness to go live. This would also be in line with the findings of the Audit Scotland report on "Managing ICT contracts" published in August 2012, which was noted by the Programme Board.

Post go live date, it is important that management maintain the momentum needed to deliver the remaining elements of the Programme.

83. Post go live the momentum for change and continued improvement needs to be maintained in order to deliver the remaining elements of the Future Programme, and to plan for further changes including the implementation of SCTS and the introduction of the 111 service in Scotland. Many valuable lessons will have been learned from the current work and it is important that these are captured and shared with future programme teams. In particular, the experiences of those who are either leaving shortly, such as the Director of Finance and Technology, or those who have a temporary involvement in the project, such as the Cag Gemini development team and the Programme Director, need to be captured before this valuable knowledge is lost to the organisation. Similarly the planned benefits realisation reviews will help identify areas where further improvements in project delivery can be made.

Action plan point 4

Performance

Introduction

84. This section of the report looks at performance management arrangements. An effective performance management system is a key component in the effective monitoring and management of public sector resources.

Conclusion

85. NHS 24 has a robust performance management framework in place. Directorates provide comprehensive performance information to management on a monthly basis. This information covers all performance indicators included within NHS 24's Local Delivery Plan. Both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets are included in NHS 24's performance management reports.

HEAT and performance targets

86. Performance against HEAT and other targets for 2012/13 is reported on a monthly basis to the senior management team and to NHS 24 through the performance corporate scorecards. At the time of our audit NHS 24 was in line to achieve all but one of its targets, as shown in Table 7.

Table 7 – Overall progress against targets

Progress	Total	On target	Below target
Health Improvement	2	2	0
Efficiency	2	1	1
Access	12	12	0
Treatment	3	3	0
Total	19	18	1

(Source: Board Performance Reports)

87. NHS 24 failed to meet the HEAT target of reducing its carbon emissions by 10%, achieving instead a reduction of 9%. Management are working to address this through implementing the actions contained within the Carbon Management Plan and are primarily focused on energy efficiency e.g. heating, lighting and ventilation systems and changing behaviours. In partnership with its Facilities Management provider NHS 24 is confident that the good progress made in 2012/13 will continue into 2013/14 and beyond ultimately achieving its 20% target by 2016.
88. All of the other targets established by NHS 24 and agreed with management have been achieved. In particular access targets around patient accessibility and call response times have been delivered. This represents delivery of NHS 24's core service delivery aims.

Service delivery

89. NHS 24 continues to identify and deliver new approaches to improve efficiency and effectiveness of patient care across Scotland. NHS 24 is delivering this through a range of initiatives. Below we highlight two such initiatives; the Patient Reminder Service (PRS) and telestroke.

Patient reminder service (PRS)

During 2012, in partnership with NHS Forth Valley, NHS 24 undertook a pilot PRS to deliver a more efficient and effective outpatient service through improving the level of attendance at outpatient clinics. The initiative, involves NHS 24 staff contacting patients to remind them of appointments. It is aimed at delivering a PRS that will help reduce the level of missed appointments.

The pilot scheme was conducted across gynaecology, paediatrics, gastroenterology and oral maxillofacial clinics. Results showed that the number of missed appointments in outpatient paediatrics, which had become as high as one in four, fell to one in six, and across the specialties as a whole, the rate reduction for the pilot in DNA's (Did Not Attends) was 27 per cent. This is expected to free up around 4,500 appointments a year which can then be allocated to other people.

Following the successful pilot at NHS Forth Valley and a similar PRS pilot with NHS Western Isles across all of its outpatient appointments, the PRS is being extended across Scotland.

Currently the PRS covers approximately 15 specialties, which will lead to increased capacity from the DNA reduction and rebooked appointments. The PRS service is being rolled out across health boards in Scotland, with the service having recently gone live in NHS Ayrshire and Arran, and plans for NHS Grampian being at an advanced stage. Provident is working closely with NHS24 to roll out these service, and develop new functionality such as SMS and other automated reminders.

90. The cost of developing the service is a one off capital cost to NHS 24 of £134,000, with revenue charges associated with service delivery being absorbed by the individual territorial boards. NHS 24 has estimated that through the pilot scheme alone, NHS Forth Valley made efficiency savings through reduced waiting time initiatives of between £250,000 and £300,000.
91. Furthermore, the pilot project and the wider roll-out of the service has identified clinical benefits. In particular there have been improved patient pathways for care as the reminder service ensures that individual patients are kept informed and of appointments. PRS also helps boards effectively manage their resource as there is a reduction in the number of DNA's and subsequently waiting times are reduced.
92. The PRS is a key example of NHS24 working with partners across the health sector to make improvements to patient care and service delivery. NHS 24 is looking to further develop this service in the coming year through the use of technology including automated phone message reminders or SMS text.

Telestroke

During 2011/12 NHS 24 ran a pilot programme which provided an out of hours stroke thrombolysis decision support service from NHS Lothian for: NHS Lothian, NHS Borders, NHS Fife, NHS Forth Valley, NHS Dumfries and Galloway.

Working with the partner boards, NHS 24 delivers an out of hours (OOH) hub and spoke model of service delivery. The on call specialist in the 'hub' Board (NHS Lothian), provides decision support for stroke thrombolysis to all Lothian acute sites during the OOH period and all acute sites in the referring 'spoke' sites during the OOH period. Medical responsibility remains with each referring site.

Telestroke networks provide patients admitted to their nearest acute hospital with access to a stroke specialist (who may be at another hospital, healthcare facility or in their own home) to view the patient's head CT image, as well as using video-links to consult with the patient as they would if they were with the patient.

The new service provides thrombolysis treatment 24 hours a day, seven days a week on eight acute sites across the five Boards. (Prior to the set up of this development this was only available 24/7 on one site). Using technology and sharing resource across boards it is supporting boards deliver against challenging HEAT targets.

93. NHS 24 incurred initial set up costs of under £100,000 in setting up the service. Going forward territorial boards will absorb the cost of delivering the service. The nature of patients' conditions means that quick response is essential. Stroke clot busting treatment or thrombolysis must be given within four and a half hours of onset of symptoms and NHS 24 estimate the initiative could improve the outcome for approximately 800 patients in Scotland a year.
94. The service highlights the role that NHS 24 can play in maximising the use of technology to support effective partnership working across health boards in Scotland.

Governance

95. 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
96. We are pleased to report that governance arrangements at the NHS 24 are effective. The Board receives regular and detailed performance and financial information which provides a good basis to facilitate scrutiny and challenge. There is a strong link between strategic and operational planning and risk management with key risks being identified and managed throughout delivery of plans.

Systems of internal control

97. 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.
98. The governance statement included within NHS 24's 2012/13 annual accounts disclosed no material internal control weaknesses and our audit identified no issues which we consider require to be disclosed in the 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.

NHS 24's internal audit services are provided by PricewaterhouseCoopers

99. Internal audit is a key component of NHS 24's corporate governance arrangements. NHS 24's internal audit service is provided by PricewaterhouseCoopers (PwC).
100. 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 to 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.

Prevention and detection of fraud and irregularity

101. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the annual 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.

102. We did not find any indication of material 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 is making progress with work around the National Fraud Initiative (NFI)

103. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland, assisted by the Audit Commission. It 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.

104. We have confirmed that the Board appears to have adequate arrangements in place to ensure that NFI matches are appropriately investigated. Currently management is in the progress of investigating matches reported and the arrangements the Board have in place appear adequate.

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

105. 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.

Looking forward

Finance and use of resources

- 106.** The 2013-16 Local Delivery Plan (LDP) outlines NHS 24's key targets over the next three years. NHS 24's financial plans for the 2013/14 financial year include the identification of £2.955 million of efficiency savings. Delivering these financial targets will be challenging and considerable real cash efficiency savings will be required. It is envisaged that the majority of these savings will be achieved through workforce efficiencies. This will primarily be achieved through a change in the model of care, with a reduction in clinical specialists and greater utilisation of administrative staff. .
- 107.** NHS 24 is expecting a funding uplift of 1% in 2013/14 to support costs arising from pay and supplies inflation. Furthermore, NHS 24's financial plans anticipate significant reduction in contractual costs associated with the new frontline application contracts which will enable the Board to meet cost pressures including brokerage repayments and other cost pressures.
- 108.** Management is confident that, whilst the financial position remains challenging, there is sufficient scope within NHS 24 to generate the savings required without impacting on front-line service delivery

'111' and workforce planning

- 109.** The Scottish Government announced in January 2013 that the NHS 24 unscheduled care telephone number will change from the current 08454 242424 number to 111, which will be free for the caller, in spring/summer 2014. The new number does not represent a change in service delivery but may lead to an increase in call volumes and changes to call patterns, particularly in the initial period after launch.
- 110.** NHS 24 has established a national Project Board for the implementation of 111 in Scotland. It will be important that the full financial and workforce implications are assessed and effective scenario planning is undertaken. NHS 24 will require to work closely with Scottish Government in responding to the planning, financial and workforce implications.

Governance

- 111.** 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.
- 112.** With the roll- out of the Future Programme in September 2013, and ongoing workforce modernisation in the coming year it is essential that NHS 24 maintain strong governance arrangements to ensure full delivery of benefits and minimise any potential, negative impact these changes may have on frontline service delivery.

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

The grading structure for our recommendations is 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.

Action plan

1	Compliance with circulars
Observations	During our testing we identified that whilst key applicable guidance was being followed, the database had not been maintained in the final month of the year. We understand that this was due to changes in key personnel during the year. The database acts as a key control for ensuring that timely action has been taken to address any issues or recommendations raised in the circulars to ensure that NHS 24 continue to follow appropriate regulations.
Risk and recommendations	We recommend that management put arrangements in place for maintain the database of circulars received and ensure that there is a formal process in place for ensuring compliance with these. Grade 2
Management responses	Responsible officer: Board Secretary Deadline: Immediate
2	Nominal ledger
Observations	The Financial Operating Procedures outline that any supporting information for journal entries should be attached to the back of the journal and filed in the current period's journal file. During our audit testing we identified instances where supporting documentation had not been attached to the journal.
Risk and recommendations	There is a risk that journals are raised and authorised without appropriate documentary evidence to support the journal entry. We recommend that management ensure that, where appropriate, journal entries are supported with appropriate documentary evidence. Grade 2
Management responses	Responsible officer: Deputy Director of Finance Deadline: Immediate

3	VAT returns
Observations	We found during our audit testing that on one occasion during the year the VAT return was not submitted in line with the timescales set by HMRC.
Risk and recommendations	There is a risk that if NHS 24 fail to submit VAT returns to HMRC in a timely manner then they may be subject to a fine or penalty. We recommend that management ensure arrangements are in place for timely submission of future VAT returns. Grade 2
Management responses	Responsible officer: Deputy Director of Finance Deadline: Immediate

4	Future Programme
Observations	We undertook a high level review of the Programme to gain a clearer understanding of the progress made to date, how the governance structure has been implemented, including the effectiveness of the change control procedures, and to highlight any issues that need to be addressed in the final stages of the Programme.
Risk and recommendations	We identified a number of issues that NHS 24 should look to address in the final stages of the Programme including post implementation. It is important for the effective delivery of the Programme that these issues are considered. <ul style="list-style-type: none"> • An exercise should be undertaken to provide the Programme Board and Service Committee with a clearer understanding of the cost implications arising from a variety of scenarios including the planned phased implementation, a short delay to go live and a longer delay; • Clear contingency plans to be devised and tested for both a delayed go live and a “failed” go live requiring system roll back; • Clear and objective acceptance criteria to be set covering all aspects of the implementation against which the Programme Board and Future Service Committee can assess evidence provided prior to approving go live at pre-determined milestone dates; and • Contact be made with the Scottish Government’s Programme and Project Management Centre with the aim of arranging for a Gateway 4 Review to provide assurance in advance of the above go live approval decision. Grade 4
Management responses	Responsible officer: Chief Executive Deadline: Immediate

Follow up on prior year action plan

1	
Balances with other Boards	
Observations	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.
Risk and recommendations	<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>
Prior year management response	<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>
Audit observation in current Year	<p>Amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements. However, NHS 24 did not agree balances and transactions with the Mental Welfare Commission.</p> <p>NHS 24 should ensure that formal confirmations are received from the Mental Welfare Commission in line with SGHSCD guidance.</p> <p style="text-align: right;"><i>Issue outstanding</i></p>
Current year management response	<p>Agreed.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Deadline: Immediate</p>

2 Telehealth assets

Observations	2011/12 Telehealth equipment costs have been recognised as revenue expenditure during the year.
Risk and recommendations	<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 that these discussions should include agreement over who is responsible for management and ownership of the equipment.</p> <p>Grade 2</p>
Prior year management response	<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>
Audit observation in current year	<p>NHS 24 agreed the accounting treatment for Telehealth assets with the SGHSCD. On this basis, NHS 24 will continue to recognise the expenditure as revenue spend. Should costs become more significant further discussions would be held with SGHSCD to agree suitable approach.</p> <p style="text-align: right;"><i>Issue resolved</i></p>

3 Provisions	
Observations	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.
Risk and recommendations	<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>

Prior year management response

Independent valuation will take place at more regular intervals to ensure that the provision remains appropriate.

Responsible officer:

Deputy Director of Finance

Deadline:

July 2012

Audit observation in current year

In March 2013, NHS 24 obtained an up to date independent valuation of the likely costs that would be incurred in bringing leased premises back to a suitable state of repair. This information has been accurately reflected in the accounts

Issue resolved

4 Impairment of assets

Observations

During 2011/12 the NHS 24 impaired a number of IT assets and items of furniture and fittings with a total cost 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 risk that the transaction is not appropriately recognised in the accounts or underlying accounting records as a disposal.

Risk and recommendations

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.

Grade 2

Prior year management response

A new form will be introduced for impairments to distinguish these from disposals.

Responsible officer:

Deputy Director of Finance

Deadline:

July 2012

Audit observation in current year

Management revised the template used during the year to clearly distinguish impairments from disposals in the year. We confirmed through our testing that these were operating effectively during the year

Issue resolved

5 Efficiency savings

Observations	NHS 24 has yet to formally identify £0.778 million of savings which will be required if a breakeven position is to be achieved.
Risk and recommendations	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
Prior year management response	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
Audit observation in current year	NHS 24 successfully delivered the savings required during 2012/13. Savings plans for required savings during 2013/14 have been identified and management are in the process of implementing these.

Issue resolved

6	NHS superannuation scheme
Observations	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.
Risk and recommendations	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 SGHSCD to ensure that the Scheme is subject to timely evaluation, and that the adequacy of the employer and employee contributions has been reviewed. NHS 24 should work with SGHSCD and Scottish Public Pensions Authority on how this issue will be taken forward at a national level. Grade 2
Prior year management response	NHS 24 will liaise with SGHSCD and SPPA on how this issue will be taken forward on a national level. Responsible officer: Director of Finance and Technology Deadline:

Audit observation in current year	<p>June 2012</p> <p>NHS 24 should work with SGHSCD and Scottish Public Pensions Authority on how this issue will be taken forward at a national level.</p> <p style="text-align: right;"><i>Issue outstanding</i></p>
Current year management response	<p>Agreed</p> <p>Responsible officer: Director of Finance and Technology</p> <p>Deadline: June 2013</p>

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