

NHS National Services Scotland

Annual report on the 2012/13 audit



Prepared for the Board of NHS National Services Scotland and the Auditor General for Scotland
July 2013

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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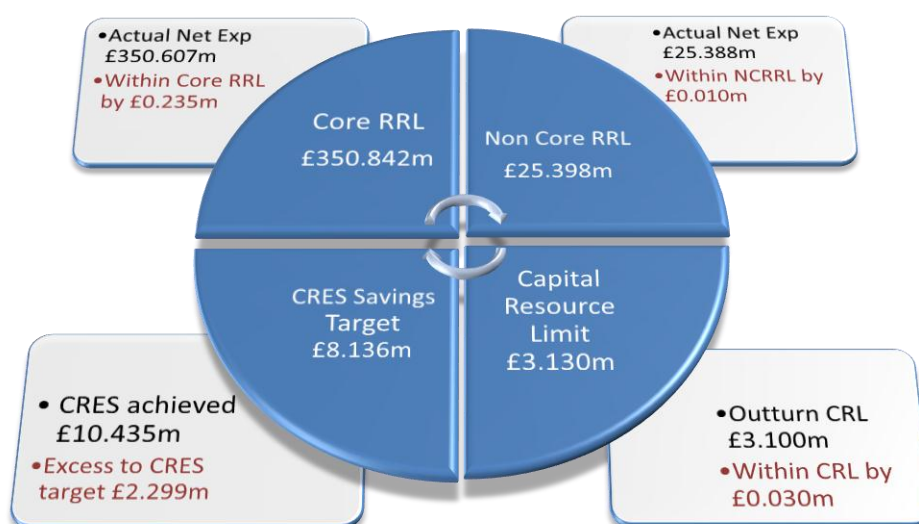
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Key Messages

2012/13

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2012/13 we assessed the key strategic and financial risks being faced by NHS National Services Scotland. We audited the financial statements and reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings. The key financial messages are summarised at exhibit 1.

Exhibit 1 -Key financial results



NHS National Services Scotland: audited financial statements 2012/13

Financial Statements

We have given an unqualified audit report on the financial statements of NHS National Services Scotland for 2012/13. We 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.

Financial position and use of resources

The Board achieved all of its financial targets in 2012/13 and returned a saving against its total Revenue Resource Limit of £0.245 million as at 31 March 2013. The Board achieved recurrent savings of £10.435 million against a planned savings target of £8.136 million. Financial management remains strong with a robust budget setting process and challenge evident in agreeing and monitoring the financial position of the Board.

The Board recognises the challenging financial position and has addressed this issue in a number of ways; including implementing the Quality and Efficiency Service Transformation (QuEST) programme and seeking to expand the customer base for services through new powers to act for other public bodies, which will be implemented through its Accelerated Shared Services Programme. These significant change programmes are supported by efficiency initiatives being driven by divisions as part of their financial and business strategies.

Governance and accountability

In 2012/13, the Board had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. These included an Audit and Risk Committee, Staff Governance Committee and Clinical Governance Committee. The Board also had an effective internal audit function and sound anti-fraud arrangements.

Performance and best value

The Board has a well developed framework in place for monitoring and reporting performance. In 2012/13 the Board met or exceeded 94% of its performance targets agreed with the Scottish Government.

The Board has a Finance and Performance Committee. Its remit includes reviewing financial performance and ensuring that the 2012/13 financial plan was achieved. The Finance and Performance Committee also plays a key role in monitoring performance against national targets.

The Board has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the Audit and Risk Committee to confirm implementation.

Outlook

Looking forward, the financial position remains challenging and uncertain with limited increases in funding, increasing cost pressures and the potential for an evolving role for NHS NSS within the wider public sector (which is both opportunity and risk). The Board, whilst predicting a breakeven position in each of the next five financial years, recognises that this can only be achieved if a combination of cash efficiency savings and new or increased public sector income sources are realised to fill the funding gap.

To achieve continuing financial balance, the Board will require to deliver £8.5 million of recurring cost savings in 2013/14. This represents a major challenge for the Board. Expenditure during the year will need to continue to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

The significant financial challenges that the Board will face in 2013/14 and beyond will require the Board to prioritise further its use of resources. This 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 2012/13 audit of NHS NSS. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising. The report is divided into sections which reflect our public sector audit model.
2. A number of reports have been issued during 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 NSS.
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 NSS 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 it has been issued. 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. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.
6. The management of NHS NSS is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work, and may not be all that exist. 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 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 Directors' 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 NSS for 2012/13 give a true and fair view of the state of its affairs and of its net operating cost for the year.
11. NHS NSS is required to follow the 2012/13 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 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act, the regularity assertion, through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues were identified for disclosure.

Accounting issues

14. As agreed, the unaudited accounts were provided to us on 29 April 2013 supported by a working papers package. The working papers and cooperation and assistance afforded to the audit team enabled us to conclude the audit and certify the financial statements by the target date of 30 June 2013.

15. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. In addition, management made further adjustments to the unaudited financial statements.
16. The aggregate effect of these adjustments was to increase total comprehensive expenditure by £0.645 million offset by a final RRL increase of £0.727 million resulting in an increased underspend of £0.245 million.
17. Subsequent to the completion of audit work one significant matter arose. A letter, from the Scottish Terms and Conditions Committee (STAC) dated 29 May 2013, advised Scottish NHS boards that public holidays during maternity leave should be accrued and that this should be implemented from 1 April 2008. Management also took the opportunity to review the valuation of slow moving stock. This action was previously agreed, as part of our discussions with management during the course of the audit, for deferral to 2013/14.
18. In addition, a small number of other unadjusted errors (totalling less than £5,000) were identified during the course of the audit, where if adjustments had been made there would have been no effect on the financial statements as the errors were of equal and opposite effect.
19. The aggregate effect of the adjustments would have been to decrease total comprehensive expenditure by £0.036 million increasing the underspend to £0.281 million. Net assets as recorded in the balance sheet would have increased by £0.036 million. Management concluded that the net impact of the potential adjustments was not material to the financial statements; we were in agreement with this view.
20. As required by auditing standards we reported to the Audit and Risk Committee on 18 June 2013 the main issues arising from our audit of the financial statements. The main points are set out in the following paragraphs.

Capital funding for eco hospitals projects - £4.960 million

21. The Scottish Government allocated funding of £24 million, over four years, to make NHS hospitals and facilities more energy efficient. During 2012/13 additional capital funding was made available to NHS Scotland to fund a variety of “eco” capital projects. Expenditure was incurred on various projects, for example boiler replacement, at individual boards and funding expenditure was to be co-ordinated by NSS.
22. Scottish Government Health and Social Care Directorates (SGHSCD) subsequently increased individual boards' capital resource limits (CRL) to reflect additional capital expenditure. Consequently, NSS CRL was reduced since they held the additional funds. This resulted in NSS having to disclose additional funding separately from CRL to match expenditure incurred on behalf of individual boards. We are content with the treatment and disclosure within the financial statements relating to this unusual transaction.

Scottish National Blood Transfusion Service (SNBTS) facility, Liberton Edinburgh - Impairment

23. An outline business case has been approved for the creation of a national centre for the manufacture, processing and testing of blood, tissues and cells. These services are currently provided from a number of sites including the SNBTS buildings at Liberton, Edinburgh. Management advise that the Liberton site is still operational and will remain so for the next four years, after which time the planned new building will become available. The Scottish Government is not yet due to approve the full business case, therefore at the balance sheet date, no formal decision had been taken which would confirm that an impairment event, requiring a revaluation of the Liberton site, had taken place. If approval is received for the new building, it is planned to impair the facility fully in the final year to reflect its net realisable value at that time.
24. International Accounting Standard (IAS) 36, Impairment of Assets, requires an entity to conduct a review for impairment of assets recognised in the balance sheet at the end of each financial reporting period. The SNBTS building has been impaired over the past few years as parts of it became non-operational. It was revalued in 2012/13 by professional valuers. To ensure compliance with IAS 36, Management agreed to review the timing of accelerated depreciation charges over the remaining expected life of the asset up to the point of its discontinued use in four years time.

Inventory provision - £1.600 million

25. The unaudited financial statements included an inventory provision of £1.600 million. This provision was created in respect of slow moving and obsolete stock. Following discussion with management, it was agreed that the provision did not meet the criteria set out in International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets, consequently the full amount was used to write down stock. Management advised that the method of stock valuation would be reviewed for future years to reflect the stability in stock lines and improved procurement practices.

Outlook

26. No significant changes are currently expected to the reporting framework (FReM) applicable to NHS NSS for the next financial year 2013/14.

Financial position

27. Audited bodies are responsible for putting in place proper arrangements for the conduct of their affairs and ensuring that their financial position is soundly based.
28. 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.

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 2013

29. NHS NSS is required to work within the resource limits and cash requirement set by the SGHSCD. In 2012/13, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital. The Board achieved all its financial targets in 2012/13 as set out in table 1.

Table 1: 2012/13 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	350,842	350,607	+235
Non Core	25,398	25,388	+10
Capital resource			
Core	3130	3100	+30
Non Core	0	0	0
Cash position			
Cash requirement	356,000	355,998	+2

30. The Board has achieved a revenue surplus of £0.245 million. The Board had budgeted to break-even against its revenue resource limit in 2012/13. Historically, boards have relied upon a measure of non-recurring funding to achieve financial targets. This carries the risk that over reliance on non-recurring income to achieve financial balance becomes

problematic. Longer term financial plans should be based upon recurring expenditure streams as a basis for reviewing and redesigning models for service delivery.

Risk Area 1**Capital Resource Limit**

31. The Board spent a total of £8.060 million on capital expenditure during 2012/13 and received £8.090 million of income from Scottish Government, including additional capital income received in the form of a grant to fund a number of eco improvements within the NHS estate. The programme was administered by Health Facilities Scotland on behalf of territorial health boards.
32. Included in the total of £8.060 million was £3.100 million of the Board's own capital expenditure. This amount was within its total Capital Resource Limit (CRL) of £3.130 million, a small underspend of £0.030 million. The capital underspend of £0.030 million relates, in the main, to a late allocation of £0.020 million from the Scottish Government which NHS NSS were unable to spend prior to the end of the financial year. The balance of £0.010 million relates to minor underspends across a number of projects. A summary of the capital programme is set out in table 2.

Table 2 - 2012/13 Summary of Capital Programme

<i>Income</i>	<i>£000</i>	<i>£000</i>
Capital Resource Limit	3.130	
Eco Hospitals Income	4.960	
<i>Total Income</i>		8.090
<i>Expenditure</i>		
Property fixtures & Fittings	2.930	
Plant & Equipment	2.600	
IT Equipment	0.900	
Software licences & development	0.800	
Vehicles	0.830	
<i>Total Expenditure</i>		8.060
<i>Surplus within CRL</i>		0.030

Workforce Reduction

33. The 2012/13 financial statements include £0.797 million of costs relating to 13 individual exit packages agreed as part of the Board's Voluntary Severance Scheme (VSS). During 2011/12 there were 26 exit packages approved under VSS at a cost of £1.062 million. Packages covered both clinical and non-clinical staff categories.
34. A robust evaluation process is in place to ensure that exit packages approved under the VSS are supported by a business case signed by the relevant director. Relevant business cases are approved by the Remuneration Committee, which is chaired by a non-executive board member. As part of each business case, details were provided to show that there would be no detrimental impact upon service delivery as a result the employee leaving the Board. We are content with the processes adopted by the Board for the administration of its VSS.

Financial planning to support priority setting and cost reductions

Financial sustainability and the 2013/14 budget

35. NHS NSS has received a lower overall uplift in baseline revenue funding compared to the general uplift made available to territorial health boards (approximately 2% per year). In addition, NHS NSS receives non-baseline funding from Scottish Government for specific programmes and projects. NHS NSS has also been required to return cash efficiency savings to Scottish Government since 2011/12. In total, revenue resource limits available to NHS NSS have, in recent years, exhibited a significant downward trend. Scottish Government funding to NHS NSS, excluding, ring-fenced funding to NSD for specialist services, has declined by 21% over the four years to 2012/13. Table 3 provides a historical analysis of the income position for NHS NSS.
36. The Board's ability to achieve financial balance is largely dependent on it successfully implementing a comprehensive cost savings plan. For 2013/14, the Board needs to achieve £8.5 million of recurring cost savings which is the equivalent to 3% of the Board's baseline revenue allocation. This represents a significant challenge to the Board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage .
37. The Board's Local Delivery Plan (LDP) for 2013/18 aligns the Board's strategic priorities with its financial plans, workforce plans and service delivery plans. As part of our follow up review of 'Scotland's public finances: addressing the challenges' we considered the effectiveness of the Board's financial planning arrangements. These arrangements include robust and challenging budget setting processes, regular monitoring, reporting to all levels within the organisation and the updating of information to allow potential risks to be assessed and managed as appropriate. We are content that the Board is well placed to address the financial challenges it will face in the years ahead.

Table 3: NHS NSS income 2008/09 to 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
NSS SG income (ex NSD) (£'m)	254.1	239.6	236.6	200.4	200.7
Cumulative increase/(decrease)	-	(5.7%)	(6.9%)	(21.1%)	(21.0%)
NSD SG ring-fenced income (£'m)	147.3	159.3	162.5	170.7	175.5
Cumulative increase/(decrease)	-	8.1%	10.3%	15.9%	19.1%
Total SG income (RRL) (£'m)	401.4	398.9	399.1	371.1	376.2
Cumulative increase/(decrease)	-	(0.6%)	(0.6%)	(7.5%)	(6.3%)
Other operating income (£'m)	114.4	164.8	181.0	206.9	226.1
Cumulative increase/(decrease)	-	44.1%	58.2%	80.9%	97.6%
Total income (£'m)	515.8	563.7	580.1	578.0	602.3
Cumulative increase/(decrease)	-	9.3%	12.5%	12.1%	16.8%

Source: NHS NSS annual accounts

38. Looking forward, the indications are that funding uplifts available to NHS NSS are likely to be around 1% in 2013/14 and 2014/15. Given the current economic conditions and the impact of national spending priorities, there is a risk that these pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.

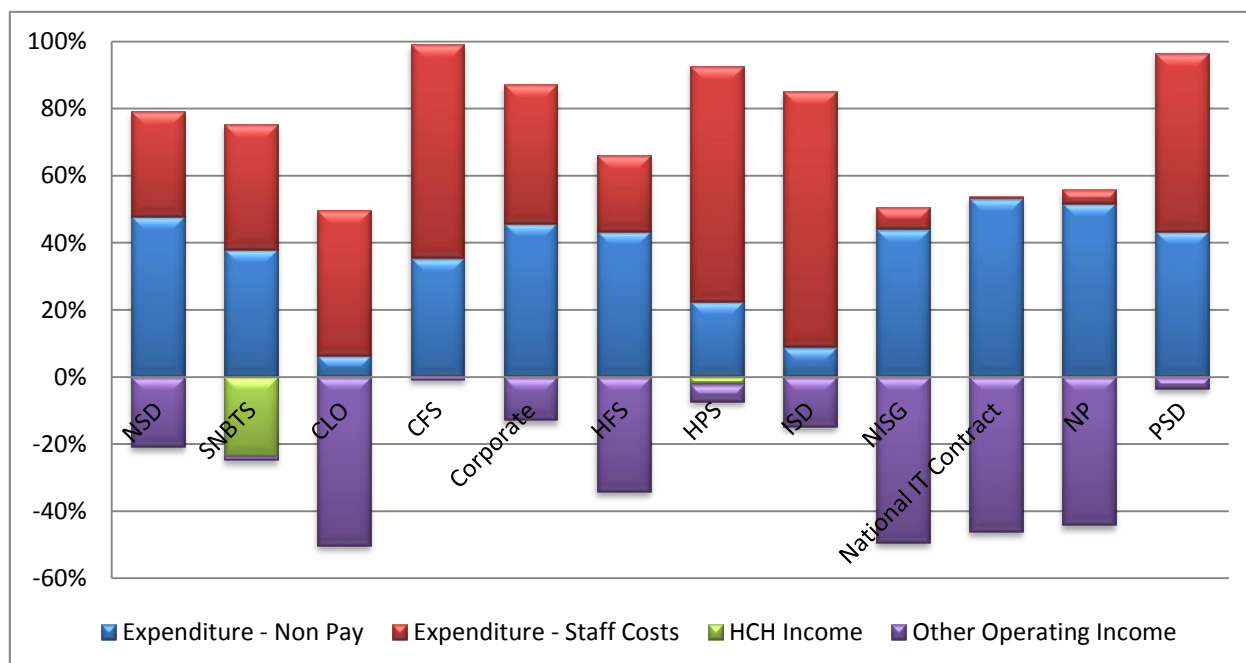
Risk Area 1

39. The five year financial plan indicates a break-even position in each of the five years after factoring in efficiency saving of some £8.4 million each year. The financial plan assumes that future funding uplifts will be in the range of 1% for the period 2014/15 and 2015/16 and 0.8% thereafter. For the years 2013/14 and 2014/15 the planned position takes account of additional cash efficiency savings of some £4 million per annum. In agreement with SGHSCD no further cash efficiencies are included beyond 2014/15.
40. In total, from 2011/12 to 2014/15, NSS will have delivered cash efficiencies totalling some £44 million, through reduced baseline allocations, and will continue to deliver £17million per

annum thereafter. This represents a net reduction to the NSS baseline (excluding National Services Division (NSD)) of approximately 7%. The achievement of the plan carries a number of risks, principally that the NSD budget deficit will be resolved through the National Specialist Services Committee and will have little or no impact on the NSS budget; and, that health boards will, in the face of scarce resources, be unable to maintain current levels of service take-up from NSS.

- 41. Expenditure and income profiles vary between different divisions. Chart 1 shows that some divisions have a high proportion of staff costs (for example, Central Legal Office and Health Protection Scotland) whilst others have a higher proportions of non pay costs (for example, NSD and National Procurement (NP)). Different costs and income streams are subject to specific pressures which are subject to varying degrees of uncertainty. The effect of cost/income pressures will impact across divisions to different degrees, potentially affecting divisional business plans and financial targets and consequently the ability to contribute to the overall NSS position.
- 42. Where expenditure is not met in total by external income, the balance is met from Scottish Government revenue funding. Chart 2 shows the distribution of Scottish Government revenue funding to operating divisions during 2012/13. This shows that nearly half of the total funding is used to support services provided by NSD.

Chart 1- Analysis of Income & Expenditure by Division in 2012/13



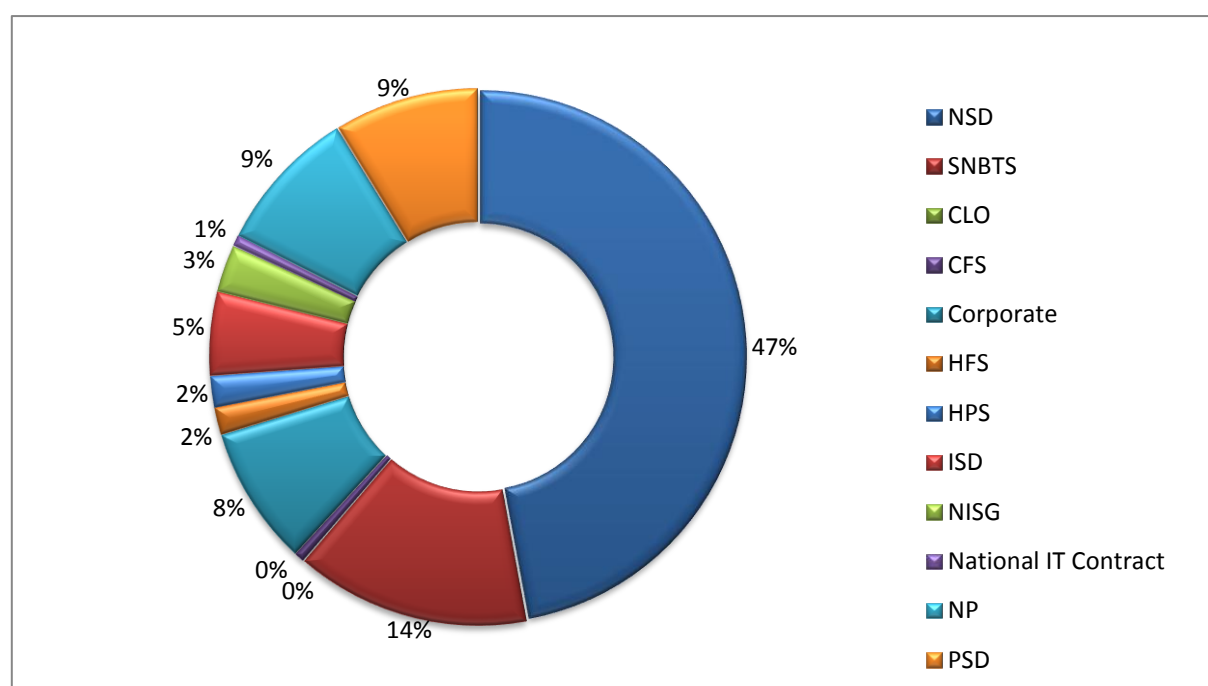
Source: NHS National Services Scotland - budget monitoring returns

- 43. NHS NSS, through the NSD, commissions and manages national screening programmes and specialist clinical services on behalf of NHS Scotland. NSD receives top-sliced, ring-fenced funding from SGHSCD, however, the current costs incurred by NSD are some £0.5million per

year higher than the available annual funding defrayed through the top-slicing mechanism. NSD faces a potential cumulative deficit of some £2.6m over the five financial years commencing 2013/14. The Director of Finance has advised us that any potential shortfall in NSD ring-fenced money is for health boards, using the NHS National Specialist Services Committee, to resolve and that the financial risk does not sit with NSS.

44. The Board faces a number of cost pressures which could all impact on its ability to deliver a balanced budget, including:
- reductions in funding of some 3% across all divisions.
 - expected cash savings of some at £4 million per year (until 2014/15).
 - anticipated pay inflation remaining at or around 1% for the next 2 years.

Chart 2: Allocation of Scottish Government revenue funding by division



45. There are a number of assumptions and concomitant risks associated with the delivery of a balanced finance plan, including:
- the expectation that there will be continued engagement with other health boards at the current or increased level of activity.
 - the potential impact of future regulation affecting services provided by NHS NSS.
 - successful implementation of a new national centre which supports the manufacture, processing and testing of blood, tissues and cells.
 - the expectation that all service efficiencies identified as part of the QuEST programme will be delivered.

- the expectation that recurring underfunding within NSD will be resolved through existing funding streams.
46. Key to the achievement of a balanced budget is the commitment to reducing the cost base of the services provided by NHS NSS. On a corporate level the QuEST programme is the strategic plan to address the longer term needs of NHS NSS. The aim of the plan is to create a business that optimises NSS services to maximise benefits, minimise costs and create an organisation that is flexible for future change.
 47. The QuEST programme has two key strands: the first concerns the organisational structures and realigns the current divisional structure into a smaller number of strategic business units (SBUs). This provides the foundations for the other strand which focusses on the business processes, knowledge and skills of the workforce and improving the interaction and engagement with customers, supply chain management and working in partnership throughout the wider public sector
 48. It is too early in the implementation process to quantify the eventual impact of the QuEST programme, however its significance to the future strategic success of NHS NSS is well understood by the Board and the senior management teams across the organisation.

Pension costs

49. Following the advice of the Scottish Government, Note 24 in the financial statements for 2012/13 "Pension Costs" reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. This figure is based on the last quinquennial actuarial valuation on the NHS Superannuation Scheme which was for the year ended 31 March 2004. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been postponed by HM Treasury pending the outcome of public sector pension reforms. Given that periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the scheme. Future contribution rates will need to be managed as part of the cost base.

Risk Area 2

Outlook

50. The Board is predicting a balanced budget position in each of the years from 2013/14 to 2017/18. However, this is dependent on the delivery of efficiency savings and additional public sector income each year to compensate for the gap between available funding from current sources and the cost of services.
51. The delivery of the cost savings plan in 2013/14 is challenging. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Achieving a sustainable financial plan for the medium term is a complex task and requires innovation and vision to design services which are needed to serve the future needs of NHS

Scotland and the wider public sector in an environment which is subject to constant pressure to deliver more with less. Failure to achieve planned cost savings will impact on the Board's ability to achieve a break even position.

Governance and accountability

52. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
53. 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.
54. 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.
55. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

56. The corporate governance framework within NHS NSS is centred on the Board which is supported by a number of standing committees that are accountable to it. The following paragraphs provide a brief comment on the main standing committees.
 - **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. The Committee's remit also includes responsibility for updating accounting policies. The Committee is attended by senior officers and representatives from internal audit, external audit and service audit as required.
 - **Staff Governance Committee:** the committee works to support and maintain a culture 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 NSS including complaints, clinical risk,

information security, and quality of clinical service, freedom of information, data protection and records management. The Committee oversees NHS NSS'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 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 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.

57. Based on our observations and audit work our overall conclusion is that the governance arrangements within NHS NSS are operating effectively.

Patient safety and clinical governance

58. 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 did not produce any reports relating directly to the work of NHS NSS during the year.
59. NHS NSS contributes to the patient safety and clinical governance in a number of ways through the services provided by its various operating divisions. Examples of how this work has contributed to the wider benefits and improvements available in the wider NHS services are outlined in the following paragraphs.
60. NHS HIS published a report in April 2012¹ which specified a minimum set of high-level measures or “quality indicators” for hepatitis C services in Scotland. Quality indicators provide a measure of an outcome which demonstrates delivery of person-centred, safe and/or effective care, and promotes understanding, comparison and improvement of that care. NHS NSS has an important role in supporting this framework. Data on hepatitis C is collated in national databases at Health Protection Scotland (HPS) and the Information Services Division (ISD). HPS and ISD will lead on the extraction and generation of data from existing national databases for quality indicators, in consultation with HIS. The first quality report is due to be issued by HIS during 2013/14.
61. All NHS NSS'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 the contribution to NHS Scotland quality of care.

¹ Quality Indicators for Hepatitis C, Health Improvement Scotland, April 2012

62. NHS NSS plays a key role in combating Healthcare Associated Infections (HAI) across Scotland. HPS 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. HPS 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 NHS Scotland and the public.
63. The Health Facilities Scotland (HFS) division ensures compliance with national cleaning standards, looking at cleaning methods, frequencies and protocols across NHS Scotland. It also works with boards on any improvement plans that are required as a result. HFS quarterly report² reported that overall the NHS in Scotland achieved an overall score in quarter 4 for 2012/2013 of 95.7% (a green rating), this is the same as the previous quarter. Estates monitoring covers issues relating to the fabric of the building e.g. vents, walls, ceiling tiles etc. Scotland's overall total score in quarter 4 for 2012/2013 was Green at 97.4%, this is a slight increase from the 97.3% achieved in the previous quarter. Led by HFS, from April 2012 a new Facilities Management Tool (FMT) became operational across most Scottish health boards. The new tool has moved data collection from a paper and spreadsheet based system to a system that uses handheld devices and web based data transfer.

Partnership Working

64. NHS NSS plays a distinct role in the delivery of a wide range of national services and projects on behalf of NHS Scotland. As such, it supports the work of every health board in Scotland in delivering key frontline services. Partnership working and engagement with stakeholders is therefore vital to the delivery of quality services and future organisational sustainability.
65. NHS NSS has recognised the importance of effective customer engagement and partnership working to achieving successful delivery of national projects. As part of the QuEST programme, customer and stakeholder engagement was identified as a key driver of organisational success and cultural change which is central to the QuEST programme. Feedback from stakeholders consulted by NHS NSS identified a number of areas where improvements could be achieved, including flexibility, approachability, insight into customer / partner priorities, lack of interaction and responsiveness. A number of workstreams are proposed to address the issues outlined in the QuEST programme. We will continue to monitor developments during the course of 2013/14.

Risk Area 3

Internal control

66. 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

² NHSScotland National Cleaning Compliance Report: Domestic and Estate Services Quarter 4 results: January 2013 – March 2013

systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.

67. 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 2012/13 PricewaterhouseCoopers (PwC), the Board's internal auditors, concluded that, based on the internal audit work undertaken during the year, "There is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls, puts the achievement of particular objectives at risk".
68. In total, PwC completed 13 audits during 2012/13 and 44 findings were reported (of which four were categorised as 'advisory'). Of the remaining 40 requiring management action none were, in terms of risk, categorised as "critical" although two were categorised as "high"; the remainder were categorised as medium (12) or low (26). The high risk items related to: revisions required to the remit and attendance for the key SNBTS committees; and improvements to information governance in Practitioner Services Division (PSD). Actions have been taken to address all recommendations.
69. As part of our audit we reviewed the high level controls in a number of NHS NSS systems that impact on the financial statements. This audit work covered a number of areas including payroll, general ledger, cash and banking and trade payables which incorporated procurement processes. Our overall conclusion was that NHS NSS had appropriate systems of internal control in place in 2012/13. There were no significant issues which required specific action by management.

Internal Audit

70. 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). The review of internal audit was carried out in November 2012 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.
71. We were therefore able to place formal reliance on internal audit work, for the purposes of our financial statements audit, in a number of areas including trade receivables, capital accounting and inventories. This ensured that all audit resources were deployed effectively to the areas of highest risk whilst avoiding duplication of effort and reducing the overall burden of audit on the staff of NHS NSS.

Service Audits

72. The Board has agreed a number of Service Audits covering major contracted services provided to the wider health service to provide assurance on the adequacy of controls operated within these services. Service Audits include services provided by:

- Practitioner Services;
- National IT Services;
- Financial Services; and
- Payroll Services

Service Audit reports are made available on a timely basis to boards who use these services.

Governance Statement

73. The governance statement, provided by the Board's Accountable Officer, reflects the main findings from internal, service 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. Additionally, the governance statement includes explicit assurance that arrangements have been made to ensure best value.
74. 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 work during the year allowed us to concur with this assessment.

ICT Application Review

75. As part of our 2012/13 audit we carried out an application review of ePayroll which replaced the Scottish Standard Payroll System (SSPS) within NHS NSS. The audit work was based on an established methodology developed by Audit Scotland. Our findings were included in our Internal Controls Assurance Report which was issued in May 2013.
76. The new ePayroll system is being developed incrementally over three phases. Phase one has replaced the core SSPS functionality and should be delivering the initial efficiency improvements. Later phases will deliver a more integrated system with the coupling of ePayroll and the Employee Support System (ESS) and deliver new functions, for example, the production of electronic payslips.
77. Our review looked at the phase one implementation stage at NHS NSS. It is noted that there has been no change to the basic SSPS controls as a result of ePayroll implementation. We therefore focussed our review on an examination of key aspects of the project management methodology adopted for implementing the new ePayroll system. The key areas examined were project management/planning, user involvement including acceptance testing, functional and data integrity confirmation and the plans in place to contribute to the national post implementation review.
78. The review highlighted a number of good practice areas, including:
- all functionality was rigorously tested before being formally signed off by the National Payroll Project Team. The NHS NSS team contributed to this process through completion of allotted tasks relating to data authentication and user acceptance testing.

- NHS NSS engagement with the project has provided assurance that matters reviewed such as data cleansing, testing of new functionality, training and communication with the national project team, NHS working groups and NHS NSS staff was well managed.
79. We also noted that the NHS NSS payroll was not one of the parallel runs sites selected by the national project team, which would have provided robust assurance to the Board over the integrity of the payroll output and correctness of payments. However NHS NSS applied mitigating checks to confirm the accurate transfer of payroll data.
80. Overall we concluded that the implementation of the ePayroll system was well managed at NHS NSS.

Prevention and detection of fraud and irregularities

81. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
82. NHS NSS 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 other policies that are available to staff via the intranet including 'whistleblowing'. The Board has also entered into a formal partnership agreement with NHS Scotland Counter Fraud Services (CFS) and a Fraud Liaison Officer is in place to ensure reports are circulated to appropriate managers and to the Audit and Risk Committee.
83. The Board's internal audit function has a formal programme of work, which, although not specifically designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
84. We concluded that the Board's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

85. NHS NSS participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information on individuals held by different public sector bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
86. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
87. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. The data submitted for NHS NSS comprised:
- all creditors transactions and creditors standing data from June 2011 to October 2013

- payroll transactions for the year to October 2013
88. In total, 1,366 matches were identified for NHS NSS; 1,340 trade creditor matches and 26 payroll matches. Audit Scotland applied the NFI filters to these matches and recommended that 208 (207 creditor matches and one payroll match) of these matches were prioritised for investigation.
89. To date, investigation of the creditor high value priority matches identified as potential duplicate payments are in fact regular or routine payments to known suppliers and other healthcare agencies. The payroll priority match has been reviewed and is not a concern. The Procurement Manager is now developing a plan to assess the level of review required for the remaining creditor matches. The Payroll Manager is also reviewing the remaining payroll matches.
90. Overall, we concluded that the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

91. 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.
92. The Board has a Code of Conduct for board members that is based on the Ethical Standards in Public Life etc (Scotland) Act 2000. This includes a register of interests. The Board also has a code of conduct which applies to all staff and is incorporated into the Board's Standing Financial Instructions.
93. We have concluded that the arrangements for the prevention and detection of corruption in NHS NSS are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Equality Act 2010

94. In April 2011, the Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part of everyday business. NHS NSS produced an Equality Outcomes Plan 2013-2017 in March 2013 which outlines how the organisation has complied with its legal duties in relation to the Act and sets out the short to medium term outcomes which the organisation will work towards over the next 4 years. Lead responsibility for mainstreaming equality and diversity rests with the Board's Director of Nursing, Strategy and Planning.
95. Under the Equalities Act 2010, the Board is required to publish information about its Equality outcomes, the actions taken by the Board and the progress made to achieve them. This is to allow the public to assess the organisation's performance on equality. The Board must publish

a report on the progress made no later than 30 April 2015. NHS NSS's Corporate Responsibility Group (CRG) is responsible for monitoring progress against the Equality Outcomes Plan. NHS NSS will incorporate equality reporting within its existing public performance reporting systems including the Board's Annual Report.

Outlook

96. 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.
97. 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.
98. The impact of these proposals on the future services provided by NHS NSS is uncertain at present and is dependent on the outcome of the parliamentary consultation process and the subsequent changes to the NHS bodies that NHS NSS engage with on an ongoing basis. We will monitor the Board's response to developments in this area.

Best Value, use of resources and performance

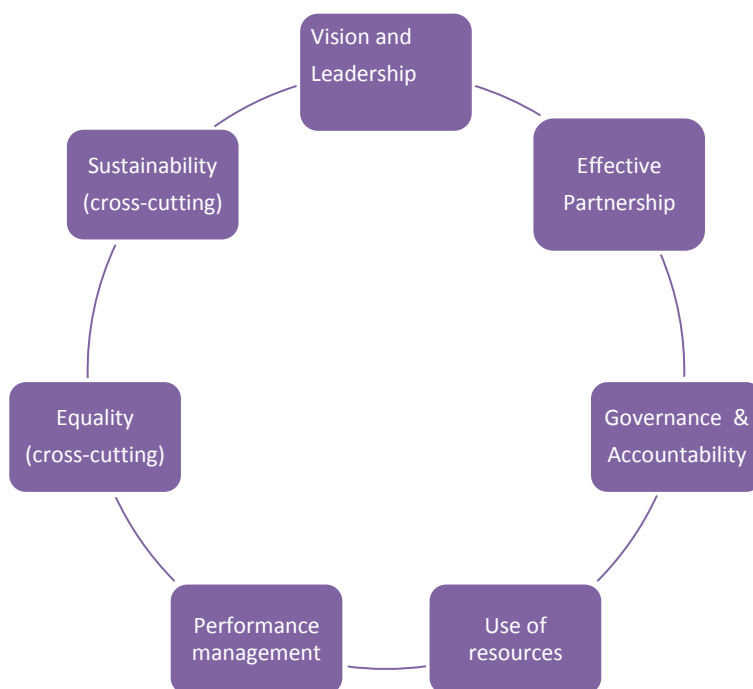
99. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
100. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. 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 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 NSS. We also note any headline performance outcomes / measures used by NHS NSS 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. It required public bodies to take a systematic approach to self-evaluation and continuous improvement. The guidance identifies the seven themes which an organisation needs to focus on in order to deliver the duty of Best Value. It also notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

106. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:



107. NHS NSS is committed to the principles of Best Value and continuous improvement, and incorporates the principles into its corporate planning and resource allocation processes.

Service modernisation and sustainability

108. NHS NSS recognises the importance of continuous improvement and the need to achieve value for money in all aspects of its activities. Looking to the future, the Board recognises the significant challenges that NHS NSS may face and the opportunities that the Public Service Reform agenda, being pursued by the Scottish Government could realise for the organisation. The principles of continuous improvement are embedded in the performance and financial framework of the organisation at both divisional and strategic level.
109. Resource Allocation Meetings (RAM) which set divisional and corporate budgets are a key part of the budget setting process. As part of the budget preparation divisional directors identify opportunities to reduce the cost of service and submit these to RAM. This may involve the redesign of working practices or efficiencies through the procurement process. Initiatives are subject to robust challenge and risk assessment and the Finance and Performance Committee monitor progress throughout the financial year.
110. The most significant strategic programme is the QuEST programme, which aims to ensure that NHS NSS is able to minimise costs, maximise benefits and create an organisation which is flexible to meet future challenges. The programme seeks to create a leaner organisational structure, reducing the current ten divisions into six strategic business units (SBUs). A number of workstreams have been identified to address the internal and external business processes which will ultimately lead to a change in culture which refocuses the existing

business into a responsive, engaged and flexible organisation. The initial programme commenced in 2012/13 and is expected to last 3 years.

111. The QuEST programme is an important element within the organisation's financial plan. Whilst the primary purpose of the programme is not to achieve efficiency savings, it is recognised that NHS NSS will have to reduce its cost base in order to provide services within financial limits set by the Scottish Government.
112. The Accelerated Shared Services Programme is another important collaborative workstream designed to extend the potential for joined up public services. The programme is an important strategic component of the future business plans for NHS NSS as a provider of services. After an extensive consultation process involving Scottish Government, local authorities and other central government bodies, a range of support services including legal services, procurement and information technology were identified as being potential services which NHS NSS could provide, on a shared service basis, to the wider public sector.
113. However, for the Accelerated Shared Services Programme proposal to proceed, a change to the legislation which established NHS NSS was required to permit the extension of service provision beyond the NHS. The Public Services Reform (Functions of the Common Services Agency for the Scottish Health Service) Order 2013, effective from 29 June 2013, empowers NHS NSS to provide services to the wider public sector.
114. The foundations for best value and continuous improvement are evident within the processes and management ethos of the organisation. The current agenda designed to reconfigure the existing business model for NHS NSS will build upon this base position. However, the agenda is challenging and success is dependent on a range of factors including effective stakeholder engagement and management capacity. Failure to deliver the anticipated changes may have a significant adverse impact on the ability of the organisation to provide future services within financial limits.

Risk Area 4

Performance management

115. The Board has a well-developed Performance Management Framework in place. HEAT targets are agreed with the SGHSCD on an annual basis and forms part of the Local Delivery Plan. NHS NSS currently has 47 HEAT targets. Performance against these targets during the year is discussed at paragraph 127 - 129 below.
116. Reporting is based on the HEAT targets identified in the LDP. Regular reporting of progress against targets is presented to the Finance and Performance Committee. Current reports use a traffic light system and include the position for each quarter of the year to demonstrate progress or consistency across the year. Appropriate comment and where necessary management actions are outlined in supporting papers.
117. A new Corporate Performance Framework is being developed which seeks to improve aspects of the current arrangements to ensure that corporate reporting of organisational performance is appropriate to the needs of the organisation.

118. We consider performance reporting arrangements as part of our review of the governance and accountability processes within the organisation. We are satisfied that appropriate arrangements were in place within NHS NSS for 2012/13.

Use of resources: workforce planning

119. Workforce planning forms one of the strategic arms of the corporate planning process which supports the Local Delivery Plan. NHS NSS agreed a workforce plan to cover the period 2012-17.
120. The overall trend illustrated in this plan is that the whole time equivalent (WTE) workforce numbers will reduce across most divisions within the organisation. There are a number of risks associated with this including the need to retain and/or develop the skills, knowledge and experience required to continue to deliver quality health services.
121. NHS NSS operates a Workforce Resource Team which accommodates staff who have been displaced from their current post as a result of service redesign and the implementation of efficiency initiatives. Staff within this group are technically surplus to requirement however are used to carry out short-term work and to fill vacancies which occur across the business as appropriate. A voluntary release scheme has been agreed for the early release of staff from their employment.
122. Staff turnover is generally low and this could have an impact on the organisation's ability to realise savings through the reduction in workforce numbers through natural wastage. The Director of Finance has advised that this risk is being managed through the construction of the financial plan on the basis of continuing low staff turnover.

Use of resources: Scotland's Public Finances: addressing the challenges

123. In the current year, we carried out a focussed follow-up audit on Audit Scotland's *Scotland's public finances: addressing the challenges* report, originally published in August 2011. Follow-up audits are also being carried out in all health boards and councils in Scotland. In addition, follow-up audits are being carried out at 20 central government bodies, including the Scottish Government, Scottish Enterprise and Scottish Water.
124. The original report set out a number of key issues and risks expected to be faced by the public sector in the period 2010/11 to 2014/15. The main aim of the follow-up audit is to look at what action has been taken since the publication of the original report in August 2011 and what difference this has made. In particular, auditors were asked to consider two key questions:
- Does the health board have sustainable financial plans which reflect a strategic approach to cost reduction?
 - Do senior officials and non-executives demonstrate ownership of financial plans and are they subject to scrutiny before approval?
125. A key consideration in the Audit Scotland report was the extent to which workforce reductions were being used to deliver financial savings. This was not covered by the follow-up audit

because of a separate study being carried out by Audit Scotland on changes to the Scottish public sector workforce which will look in detail at workforce planning.

126. The main findings from our review are summarised below and indicate that NHS NSS is well placed to address the challenges presented by the current financial environment. Key findings from our report include:
- Budget setting processes are robust throughout the organisation.
 - A comprehensive challenge and review process of budget proposals is now established and demonstrates improvement on previous arrangements.
 - There is strong ownership of financial planning and management by executive and non-executive directors.
 - There are challenges in ensuring that the implementation of the QuEST programme generates sufficient savings to meet the perceived funding gap in later financial years.

Overview of performance targets in 2012/13

127. The Board receives regular performance reports from the Chief Executive on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets. In addition, performance is subject to detailed scrutiny by the Finance and Performance Committee.
128. The Board has achieved good performance by either meeting or exceeding its targets in 44 out of a possible 47 areas (94%). These include for example,
- *Person Centred* - reactive referrals to Counter Fraud Services processed within 28 days
 - *Safe* - Platelets provided by apheresis exceeded the target of 80%
 - *Efficient* - CRES savings target exceeded against in year target
 - *Effective* - support to a range of immunisation programmes
129. Three targets were not fully achieved. Each of these targets are indirect targets, in that NHS NSS's role in their delivery is in a support capacity only, with territorial boards being the main delivery mechanism. This limits the ability of NHS NSS to influence the ultimate outcome. Progress against targets are reported to the Board and the organisation remains committed to achieving success in those areas which have fallen below the target set.

National performance reports

130. 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.
131. 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 discussed at Audit and Risk

Committee and where improvements are identified actions are agreed locally and progress monitored. Reports in the last year that may be of relevance to the Board include:

National performance reports 2012/13

- | | |
|---|---|
| <ul style="list-style-type: none"> • Management of patients on NHS waiting lists (February 2013) • Prescribing in general practice in Scotland (January 2013) | <ul style="list-style-type: none"> • Health inequalities in Scotland (December 2012) • NHS Financial Performance 2011/12 (October 2012) |
|---|---|

Source: www.audit-scotland.gov.uk

Management of patients on NHS waiting lists

- 132.** Audit Scotland carried out a review of waiting times across the health service in Scotland following NHS Lothian's reported misuse of patient unavailability codes. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.
- 133.** Audit Scotland's report on the *Management of patients on NHS waiting lists* published in February 2013 highlighted the following issues:
- The systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited.
 - Most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly.
 - Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it was not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists.
 - There was not enough scrutiny of the increasing number of patients recorded as unavailable.
- 134.** ISD has a key role to play in the management of waiting lists through the collection of data and provision of timely reports to health boards. The report comments on the quality assurance role over the integrity of this data and the opportunities to improve reporting to both the Scottish Government and health boards and improvements made to the processes operated by the division over the course of the year. The report makes recommendations for action by the Scottish Government, NHS NSS ISD and territorial health boards.
- 135.** Specific recommendations contained in the report relating to NHS NSS include:
- The Scottish Government and ISD Scotland should clarify:
- the role of each organisation in monitoring how boards are applying waiting list codes and performing against waiting time targets.

- the process for raising concerns about issues within individual NHS boards.

In addition, NHS NSS ISD should:

- ensure that potentially significant concerns arising from data submitted by NHS boards are highlighted to the Scottish Government.
- monitor reported hospital activity against reported waiting time data at a specialty level to assess whether all relevant specialties are included in waiting time reporting.

NSS ISD has recently contributed to a Scottish Government led collation of responses to both Audit Scotland and the Public Audit Committee reports on waiting times. In particular, significant progress has been made in better defining the division of responsibilities between Government and ISD in the management of waiting times and at time of writing this is being captured in a shared agreement.

Prescribing in general practice in Scotland

136. The overall aim of this national report was to examine prescribing in General Practices across NHS Scotland and identify the potential to improve prescribing economy, efficiency and effectiveness
137. The report highlighted that the NHS in Scotland spends almost £1.4 billion per year on drugs, of which almost £1 billion (70%) is spent in general practice. Two territorial boards spend about 10% of their budgets on GP prescriptions and boards continue to identify this as a significant cost pressure.
138. The report recognises that information about prescribing is essential to the effective management of this expenditure stream. This information is collated by ISD. The report comments very positively on the excellent management information which is available to health boards from the datasets maintained by NHS NSS. The report also includes comment on the additional work being progressed to improve the prescribing information system by linking the community health index (CHI) number to the individual prescription data. This would allow reporting at patient level and greatly enhance the level of analysis within the dataset for use by practitioners.

Health inequalities in Scotland

139. Reducing health inequalities has been a priority for successive governments in Scotland with the introduction of major legislation supporting this aim, such as the ban on smoking in public places and minimum pricing for alcohol. The Scottish Government's 2012/13 spending review reiterated its commitment to addressing health inequalities, and in 2011/12 it allocated around £170 million to NHS boards to directly address health-related issues associated with inequalities.
140. The national performance report assessed how well public sector bodies are working together to target resources at health inequalities. The report indicated that it was unclear how much

money NHS boards and councils spend in this area or what it is spent on. Furthermore, the report highlighted that the Scottish Government takes account of deprivation and other local needs in allocating funding to NHS boards and councils. However, it is not clear how these bodies target their resources at local areas with the greatest need.

NHS Financial Performance 2011/12

141. The report provides an overview of the financial performance of the NHS in Scotland during financial year 2011/12. It also highlights the financial sustainability, challenges and cost pressures facing the NHS. In this context it reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.
142. The report noted that whilst the NHS in Scotland continued to manage its finances within total budget, this does not reflect the pressures faced by boards and a number of them had to rely on non-recurring savings to achieve balance.

Outlook

143. The Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide update on Audit Scotland's Management of patients on NHS waiting lists report later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork for the report will be carried out at NHS boards in September and October of 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Internal Audit Reliance Letter	27 November 2012	7 December 2012
Annual Audit Plan	28 February 2013	12 March 2013
Internal Controls Management Letter	7 May 2013	15 May 2013
Report to Audit Committee in terms of ISA 260	7 June 2013	18 June 2013
Independent auditor's report on the financial statements	7 June 2013	18 June 2013
Annual Report on the 2012/13 Audit	31 July 2013	September 2013

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	30/38	There is a risk that cost pressures, reduced funding settlements and continued use of non-recurring income will have a significant impact on the long term financial position of NHS NSS. Failure to develop sustainable and affordable service delivery models may result in financial targets not being met in future.	Our annual planning exercise takes into account all of these matters and more and will continue to do so.	Director of Finance	Annual planning process
2	49	Future actuarial valuations of the NHS Pension fund may result in an adverse impact on the financial position of the Board.	We will implement any findings as instructed by SGHSCD and will discuss any financial implications with them at that time	Director of Finance	Not up to NSS to set
3	65	The service improvements from the QuEST programme may be adversely affected if the improvements identified from the stakeholder consultation process are not achieved.	Agreed. A QuEST programme is in place to govern the necessary changes together with a pre-existing customer engagement programme	Director of Practitioner and Counter Fraud Services & Director of Nursing and Strategy	3 year programme

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	114	Plans for developing a revised business model are challenging. Failure to deliver the change programme may have a significant adverse impact on the ability of the organisation to provide future services within financial limits.	As for 1 above.	Director of Finance	Ongoing