



NHS 24

Annual report to the Board and
the Auditor General for Scotland
2013/14

July 2014



Scott-Moncrieff
business advisers and accountants

NHS 24

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Executive Summary

Financial statements

The Board's annual accounts for the year ended 31 March 2014 were approved on 26 June 2014. In our auditor's report we expressed unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We were also satisfied that there are no matters which we were required to report on by exception.

Use of resources

Financial performance

NHS 24 met all of its financial targets during 2013/14. The Board reported a surplus of £0.09 million against its Revenue Resource Limit (RRL) of £73.723 million.

During 2013/14 NHS 24 received brokerage from the Scottish Government of £3.859 million, to meet expenditure incurred with the Future Programme. This has resulted in accumulated brokerage to NHS 24 over the last three years of £20.756 million.

NHS 24 has produced a draft five year financial plan for 2014/15 onwards, projecting a break-even revenue position for the first four years of the plan and a small surplus position in year 5. The Board received a three month extension to its original LDP submission deadline (to 30 June 2014), primarily to give it more time to work towards resolution of Future Programme options and uncertainties. As the implementation date for the Future Programme still remains uncertain the Scottish Government have agreed NHS 24's financial plan for one year only (2014/15). The Scottish Government have also expressed significant concern over the lack of clarity on the final solution for the Future Programme and the timescales.

There are substantial financial risks in 2014/15 and beyond. The financial implications of resolving the Future Programme issues are factored into the Board's financial plans, and will be updated on an ongoing basis as this situation evolves. Given the extent of the issues to be resolved the achievement of financial targets is likely to remain a high risk area.

Future Programme

The Future Programme was due to become operational in June 2013, but this was postponed to September and then October 2013. NHS 24 has cited shortfalls against the expected performance specification and operational requirements as the main reasons for this postponement. Despite considerable efforts on the part of NHS 24, these issues remain unresolved. The Board has served a Default Notice on the application supplier Capgemini and are urgently seeking to resolve the position with the objective of having a solution in place by October 2015.

NHS 24 has agreed to enter into a process of mediation with Capgemini and preparatory work is currently being undertaken. NHS 24 is using the support available from NHS NSS as experienced ICT contract negotiators as part of this preparatory work.

Once this mediation has concluded a revised business case needs to be prepared covering all of the costs to date and a realistic estimate of the ongoing investment required to allow all stakeholders to objectively assess the viability and sustainability of the Programme.

Performance

NHS 24 has an established 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. NHS 24 successfully achieved 19 out of 20 HEAT targets for 2013/14.

Governance

We reviewed the Board's corporate governance arrangements, to ensure effective systems were in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption. Our audit work identified no issues of concern in relation to governance, beyond the issues with the Future Programme (an area disclosed in the Governance Statement).

Conclusion

Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
July 2014

Introduction

1. Our 2013/14 audit work at NHS 24 has included consideration of arrangements in place for managing resources, performance management and governance arrangements. This is in addition to our work on the financial statements. This report summaries our findings in each of these areas. The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit Committee.
2. The main elements of our audit work in 2013/14 have been:
 - a review of governance arrangements, internal controls and financial systems; and
 - an audit of the financial statements, including a review of the Governance Statement.
3. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.
4. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.
5. This report is addressed to both the Board 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 accounts are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the findings from our audit of the 2013/14 financial statements.

Overall conclusion

An unqualified audit opinion

7. The annual accounts for the year ended 31 March 2014 were approved by the Board on 26 June 2014. Within our independent auditor's report, we issued:
 - an unqualified opinion on the financial statements;
 - an unqualified audit opinion on regularity;
 - an unqualified audit opinion on other prescribed matters
8. We are also satisfied that there are no matters which we are required to report on by exception.

Good administrative processes in place

9. We received draft annual accounts and supporting papers of a good standard, at the outset of the audit. 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.
10. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland in compliance with the 30 June 2014 deadline.

Our responsibilities

11. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with International Standards on Auditing (ISAs) and to give an opinion on:
 - whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the Board's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
 - whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM;
 - whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;

- whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion);
 - whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
 - whether the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
12. We also report to you by exception on several matters, as discussed further in our report on the audit of the financial statements.

Board Members' responsibilities

13. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements that show a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
- applying the accounting policies and standards approved for NHS Scotland by Scottish Ministers on a consistent basis;
 - making judgements and estimates that are reasonable and prudent;
 - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have not been followed where the effect of the departure is material; and
 - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
14. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of Scottish Ministers. They are also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independence

15. We confirm that we have complied with Auditing Practices Board Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence.
 - Scott-Moncrieff has not provided any consultancy or non-audit services to the Board which are not regular and reasonable within the circumstances of our appointment and scope of responsibilities

Audit Adjustments

No reportable unadjusted audit errors

16. Our audit of the financial statements for 2013/14 identified no unadjusted differences, beyond a small number of trivial misstatements which do not require to be processed within the financial statements. We did identify various presentational adjustments within the accounts which have been amended by NHS 24, including to the remuneration report (to comply with new Financial Reporting Manual requirements), update to the payables note, and in relation to the Future Programme (see below). These have all been processed by the Board.

Presentation adjustment against Future Programme expenditure

17. During the year, NHS 24 incurred significant expenditure on the Future Programme. Expenditure incurred related to both the development and servicing of the potential system. Initially, Note 6 to the financial statements only disclosed direct Future Programme development costs, with wider servicing and related costs reported within a larger balance (and more general description) in Note 6. The presentation of the breakdown of costs was amended so that all costs directly related to the development and maintenance of the Future Programme would be presented under 'Future Programme' expenditure line in Note 6. This resulted in an adjustment within Note 6, increasing the Future Programme line by £5.549 million, to £13.169 million.

Board representations

18. We requested that a signed representation letter, covering a number of issues, was presented to us at the date of signing the financial statements. This letter was received and made particular and specific reference to the Future Programme.

Key areas of audit focus and significant findings

19. We are required by ISAs to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Financial position – including Future Programme impact

20. NHS 24 has recognised significant financial risks against the achievement of the financial targets for 2014/15 and beyond. This is primarily due to additional expenditure related to the Future Programme. NHS 24 will need to extend the use of existing systems in the meantime (incurring additional licencing and servicing costs). The Board also requires to repay brokerage received from the Scottish Government. NHS 24's ability to achieve efficiency savings will also be challenging, given that the efficiency savings expected from the Future Programme will not be realised in 2014/15.
21. NHS 24 has invested significantly in the Future Programme over the past four years. The Programme was expected to replace the Board's clinical software applications. However a dispute has arisen with Capgemini in relation to the performance and functionality of the system and related contractual matters.

Multimedia equipment write-off

22. In 2013/14, £0.210 million of multimedia equipment has been written off from assets under construction (deemed superseded by the Future Programme). The Board has a responsibility to deliver value for

money and business cases should be as robust as possible, including consideration of the risk of obsolescence between the time of approval and deployment of any new asset.

Action Plan Point 1

Signed lease agreements

23. NHS 24 entered into a lease agreement for the use of contact centre accommodation within NHS Grampian. NHS 24 moved into the building on 1 April 2013 but the lease was not signed by the Board until 28 August 2013. All lease and contractual documents should be agreed and signed off before the arrangements commence.

Action Plan Point 2

24. Under ISAs, there is a presumed risk of fraud in relation to revenue recognition. To address this risk we have reviewed the controls in place over the accounting records and found them to be sufficient. We have evaluated each type of revenue transaction and carried out testing to ensure that the Board's revenue recognition policy is appropriate and has been applied.
25. Management override is also a presumed risk under ISAs and we have carried out dedicated audit testing as a result. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Based on our audit work to detect potential material misstatement, we have not identified any indications of management override during the year.

Follow up of previous audit findings

Circular compliance process

26. Throughout the year the SGHSCD issues circulars and letters to boards containing key guidance, advice and often specific requirements which NHS 24 must comply with. We previously highlighted the importance of recording how the circulars have been implemented.
27. We have gained assurance that the Board has implemented the requirements of circulars issued during 2013/14 through our additional sample testing. However, the Board should document the actions completed to ensure circulars are fully implemented in all instances.

Nominal ledger

28. During our 2012/13 audit, we found that manual journals posted to the ledger were not always sufficiently backed up by supporting documentation, as required by the Financial Operating Procedures. Our audit testing identified similar issues in 2013/14. We reinforce our previous recommendation that journal entries are supported by appropriate documentary evidence.

VAT returns

29. The January 2014 VAT return was not submitted on time. Accordingly, we reinforce our 2012/13 recommendation regarding the need for timely submission of VAT returns.

Pensions / NHS Superannuation Scheme

30. The Board participates in the NHS Superannuation Scheme for Scotland ('the scheme'). The amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in the year, determined by an actuarial valuation. However, the most recently published actuarial valuation was as at 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 2013/14 accounts. The periodic actuarial valuation is essential to determine the adequacy of employer and employee contributions to the scheme.
31. In common with all health boards in Scotland, the information in relation to the scheme is out of date. There is a risk that, as the level of employers contributions have not recently been revised, the current contribution levels may not be sufficient to meet the future commitments of the pension scheme. The NHS Directors of Finance group has requested an updated valuation for the scheme from the Scottish Public Pensions Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Qualitative aspects of accounting practices and financial reporting

32. During our audit we have considered the qualitative aspects 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.

Table 1: Consideration of the qualitative aspects of the financial reporting process

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The significant accounting policies, which are disclosed in the financial statements, are considered 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 of the transaction 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. The principal areas of estimates and judgements have been: Future Programme liabilities and obligations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.

Qualitative aspect considered	Audit conclusion
<p>The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.</p>	<p>We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements (beyond the existing disclosures made). All significant uncertainties, risks and disclosures are appropriately reflected in the financial statements.</p>
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the directors' report or material inconsistencies with the financial statements.</p>	<p>There has been no misstatement or material inconsistency with the financial statements included in the directors' report.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<p>Disagreement over any accounting treatment or financial statement disclosure.</p>	<p>Audit adjustments are as noted above. However, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit.</p>

Use of resources

Financial and technical setbacks on the Future Programme are having a significant impact

33. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance. Our conclusions are based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets. The Board generally has appropriate processes in place to manage its ongoing resources from a core operational perspective, but has suffered from financial and technical setbacks on the Future Programme. This is having a significant impact on its financial position and projections, and its ability to put a technology solution in place to support its activities.

The Board's financial performance in 2013/14

The Board has met all of its key financial targets in the year

34. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As shown below, the Board has met all of its key financial targets in 2013/14.

Table 2: Performance against key financial targets

	Target (£'000)	Actual (£'000)	Saving (£'000)	Target achieved?
Core revenue resource limit	70,992	70,902	90	Yes
None-core revenue resource limit	2,731	2,731	0	Yes
Capital resource limit	300	228	72	Yes
Cash requirement	69,000	68,362	638	Yes

(Source: Annual Accounts for the year ended 31 March 2014)

A saving of £0.090 million against RRL and £0.072 million against CRL

35. The Board has achieved all of its financial targets in 2013/14, including a surplus of £0.090 million against its total Revenue Resource Limit (RRL) of £73.723 million.

36. NHS 24 generated a £0.072 million underspend against its Capital Resource Limit of £0.300 million. This is a decrease of £0.358 million from prior years' capital spend.

Efficiency savings target of £2.995 million for 2013/14 has been achieved

37. The Board achieved efficiency savings of £2.995 million, in line with the target agreed with SGHSCD.

38. The Board achieved £1.905 million of efficiency savings through its workforce costs (primarily through vacancy management and skill mix efficiencies across its contact centres). A further £0.850 million of efficiency savings have been achieved through asset management strategies.

39. The table below shows that NHS 24 achieved in year financial surplus of £0.090 million, with cash releasing efficiency savings targets achieved.

Table 3: Achievement of 2013/14 surplus

	£m
Recurring income	63.5
Recurring expenditure	57.7
Recurring savings	2.8
Underlying recurring surplus/(deficit)	8.6
Non-recurring income	10.2
Non-recurring expenditure	18.9
Non-recurring savings	0.2
Non-recurring surplus/(deficit)	-8.5
Underlying recurring surplus / (deficit) as a percentage of recurring income	13.39%

(Rounded to nearest £0.1m. Source: NHS 24 Director of Finance / Deputy Director of Finance)

Financial Plans

2014/15 Local Delivery Plan (LDP)

40. The Board had to resubmit the 2014/15 LDP to the Scottish Government at the end of June 2014. The Board was given permission for the normal pre year-end deadline to be extended, given the significant and (still) unclear impact on the financial projections as a result of the Future Programme developments.
41. NHS 24 has produced a five year financial plan for 2014/15 onwards, projecting a break-even revenue position for the first four years of the plan and a small surplus position in year 5. Given the uncertainties surrounding the final solution regarding the Future Programme and the timescales for implementation the Scottish Government has accepted NHS 24's financial plan for one year only (2014/15). It has also expressed significant concern over the lack of certainty regarding the Future Programme.
42. There are substantial financial risks in 2014/15 and beyond. Financial implications of resolving the Future Programme issues are factored into the Board's financial plans, and will be updated on an ongoing basis as this situation evolves, but at this point there are significant assumptions and estimations so the position is far from certain. Given the scale of the issue, achievement of financial targets will be extremely demanding.

Further key issues are summarised below:

Delay of Future Programme implementation will lead to additional costs in 2014/15

43. The significant financial risks include the cost pressures associated with the additional expenditure involved in delivering an operational system, and the costs associated with the maintenance of the current system (servicing costs and licence extension on the current system). Exact amounts depend on which option the Boards decides to follow with regard to the Future Programme.
44. NHS 24 has concluded that the performance of the application is unacceptable. The Board's preferred solution is to work with Capgemini to consider alternatives. This has been estimated to result in additional costs of £14.6m including potential new investment, delay costs and unachieved savings.

The Board has to repay £20.756 million of brokerage

45. In order to cover the additional expenditure already incurred in the development of the Future Programme, the Board has received £20.756 million of brokerage from SGHSCD (£0.320 million in 2011/12, a further £16.577 million in 2012/13 and £3.859 million in 2013/14). Further AME funding of £0.8m has been received which means £21.556m requires repayment. NHS 24 has agreed a revised repayment plan with the Scottish Government which effectively pushes back repayment of brokerage, compared to the previously agreed programme. For example, the outstanding balance at 31 March 2016 is now expected to be £15.9 million, compared to the £9.4 million projected in the previously agreed programme. Amending the brokerage repayment terms allows certain options for the Future Programme to be financially viable.

Implementation of the '111' phone number will incur an expected additional cost of £0.850 million per annum in call costs alone

46. On 29 April 2014, the Board launched the '111' phone line, ensuring callers will not be charged for contacting NHS 24. 111 is estimated to cost an additional £0.850 million for the costs of calls and c. £2 million in additional staffing costs per annum.
47. Initial implementation and set up costs of £0.5 million have been met through funding provided by SGHSCD. Until recently, funding from SGHSCD was confirmed at £0.5 million. However, more recent discussions with government have resulted in an increase in that allocation to £2 million. This allocation has been assumed in this revised (30 June 2014) financial plan. It has also been assumed that this will be received non-recurrently for the first year of the plan only (i.e.2014/15).

Reviewing BT payment profile

48. NHS 24 is also looking to agree a revised payment profile with BT in relation to the new contract. The LDP documentation notes that this will realise flexibility in 2014/15 and 2015/16, to support the required enhancements to the current systems and infrastructure. This work is to ensure the continuation of safe and effective services during this interim period. This work also involves considering reviewing elements of the current infrastructure on the new BT infrastructure platforms to release savings over the next two years.

Savings plans

The Board has identified an efficiency savings target of £2 million for 2014/15

49. The planned efficiency savings arising from implementing the Future Programme will now not be delivered in 2014/15. As a result, considerable work has been undertaken to develop plans to achieve the savings

target from alternative schemes. In February 2014, the Executive Management Team considered various options, endorsing an approach which involved setting corporate savings targets across the Board's Directorates. At the time of our audit, the Board had unidentified savings of £0.2 million.

50. The Board has established a Finance and Performance Committee, to oversee progress in achieving the annual statutory targets including the efficiency savings. The Committee will also contribute to the development of service redesign plans and ensure best value is incorporated into all spending and allocation decisions. The terms of reference were approved at the May 2014 Board meeting. Plans are being developed to mobilise the Committee as soon as possible.

Overall conclusion on financial management and use of resources

51. NHS 24 has encountered significant financial pressure during 2013/14, primarily through the additional expenditure incurred on the Future Programme and related spend for the maintenance of the current systems and extension of licences. The Board obtained brokerage of £3.859 million during 2013/14, compared to the £1.659 million originally anticipated at the start of the year. Over the last three years, the Board has received £20.756 million of brokerage from SGHSCD and will not be able to adhere to the originally agreed payment reschedule given the challenges of Future Programme implementation.
52. There are substantial financial risks in 2014/15 and beyond. NHS 24 is considering the financial costs involved in resolving the Future Programme issues, and trying to fully factor these accurately into the Board's financial plans. However, at this point there are so many assumptions and estimations that the position is far from certain. Given the scale of the issue, achievement of financial targets will be extremely demanding.
53. Robust operational planning and performance monitoring arrangements remain essential to ensure the delivery of financial plans without jeopardising the quality of service to patients.

Future Programme

54. The purpose of this section is provide audit commentary on the single most significant issue facing NHS 24 from an operational, clinical, financial and reputational perspective.

Background

55. The Future Programme is an ambitious and complex programme through which significant improvement in patient service is to be achieved by service redesign supported by the implementation of modern technology. The Programme began in 2009 as two separate work programmes; the Strategic Front Line Application (SFLA), through which new technology was to be procured to replace and upgrade current front line applications, and the Service Redesign Programme through which the way in which the service is supported by clinical staff would be redesigned.
56. The technology was procured in two Lots. Lot 1 related to the development and delivery of appropriate clinical and customer handling applications and Lot 2 related to the supply and installation of the hardware and underlying infrastructure needed to support the applications delivered by Lot 1. Capgemini won the contract for Lot 1 based on a combination of applications including SAP CRM and the Infermed Arezzo inference engine. Lot 2 was won by BT who would also take responsibility for the ongoing support and management of the applications once they had been delivered.
57. A go live date of 30 June 2013 was agreed but, this was subsequently put-back to 5 September 2013 to ensure that patient safety was not compromised. At the time of writing, the earliest potential system “go-live” date is 1 October 2015.

Previous work undertaken

58. We undertook a high level review of the Programme in May 2013 as part of the external audit for the financial year to 31 March 2013. While we commended NHS 24 for their work to date we highlighted a number of areas in which we considered improvements could be made. Our main recommendations were:
- the preparation of clear and objective acceptance criteria to be devised for each of the delivery areas;
 - the development of contingency plans in the event that the go live date was not met; and
 - the use of a Gateway Review to provide an objective assessment of the Programme’s readiness to go live
59. Following our report a range of acceptance criteria were drawn-up and discussions were held with the current service providers to ensure continuity of service should the go live date be delayed further.
60. A Gateway Review was undertaken by the Scottish Government in July 2013 and commended the Programme “as a particularly strong exemplar of good practice” but highlighted the risks associated with such a complex and ambitious project. It provided a series of recommendations, many of which related to the continuing need for effective risk identification, assessment and management, particularly as the programme approached its go live date.

Future Programme – Update of events

61. During August 2013 NHS 24 decided with the collaboration of both BT and Capgemini, that the Programme should be re-planned for a revised go live date of 22 October 2013.

62. As the revised go live date approached, the system was not considered acceptable to NHS 24 and a Default Notice was served on Capgemini on 15 October 2013. On 18 October Capgemini issued a User Acceptance Testing Report claiming that the system testing had been completed satisfactorily. As a result Capgemini claimed they had met two of the Transition Key Milestones as set out in Schedule Part 17 of the Lot 1 contract namely:
- TKM9, End of User Acceptance Testing (UAT), for which the deliverable is UAT Acceptance; and
 - TKM10, Go Live/Lot 1 Operational Services commence for which the deliverable is Readiness to Go Live – Technical
63. NHS 24 postponed the October go-live date pending resolution of outstanding issues. On 31 October Capgemini provided invoices for £936,000 which they claimed related to the successful delivery of the Transition Key Milestones. These invoices were disputed by NHS 24.
64. During the period November 2013 to January 2014 high level meetings were held between the Board, senior management representatives of NHS 24, Capgemini and Informed. As a result it was agreed that a series of technical exercises would be undertaken to try to address the key challenges identified during User Acceptance Testing.
65. The technical approaches which were attempted included:
- a “deep dive” through which it was intended to identify any specific areas of the system operation which appeared to impact performance the greatest; and
 - implementing a second “instance” of the application system thereby increasing system capacity and processing power.
66. While the deep dive did provide some useful information on specific areas of weak performance, the introduction of a second instance failed to provide any significant benefits. The outcome of these efforts was a system which was still unacceptable to NHS 24.
67. In February 2014, Capgemini withdrew from ongoing efforts to resolve the technical issues maintaining their view that they had met the requirements and were suffering sizeable financial losses as a result of the further delay in going live.
68. During the discussions in respect of performance measures, it became apparent that there was a disagreement over the exact performance criteria the system was expected to meet. NHS 24 is clear that these are as stipulated in the tender and system specification documents. This is disputed by Capgemini.
69. As a result of omissions in the final signed contract, a process of declaration and rectification was required to determine the intended contractual terms. A Summons in relation to the declaration and rectification action was served on Capgemini on 28 March 2014. A brief preliminary hearing was held in court in respect of this Summons on 5 June 2014 at which a further date was set for 28 August 2014.
70. Throughout this process NHS 24 has kept the Scottish Government informed and, given the risks associated with the ongoing impasse, an independent review was jointly commissioned by NHS 24 and the Scottish Government which reported in draft on 26 March. Additional support was also introduced from contract management and technical specialists from NHS NSS.

71. As a result of informal discussions between the NHS 24 and Capgemini it was agreed to hold a two day workshop in April 2014 during which a number of hypotheses would be explored on an extra contractual basis. During the two days the Inferred team demonstrated how they believed they could address the outstanding functional challenges including meeting NHS 24's performance requirements. At the conclusion of the two days it was agreed that a focused exercise over a six week period would be undertaken which included further work by Inferred, Capgemini's subcontractor responsible for the Arezzo inference engine, and additional infrastructure being put in place.
72. Following consideration of the results from this 6 week exercise, the NHS 24 Board concluded that the application was not delivering a satisfactory solution for the specified requirements. The Board agreed that the preferred strategy was to work with Capgemini to implement an alternative solution.
73. Given the delays incurred in the implementation of a new solution, NHS 24 has ensured that the current systems can be maintained in a safe and reliable manner. The additional costs of these arrangements have been reflected in the financial projections for the forthcoming years.

Governance and risk management

74. NHS 24 is not the first public sector body faced with significant challenges arising from the implementation of complex IT contracts. As a result of a number of central government IT projects failing to meet their objectives, Audit Scotland published a report highlighting a number of common weaknesses in how three specific cases were managed (Managing ICT Contracts – August 2012).
75. While the Gateway Review in July 2013 highlighted the Future Programme governance arrangements as being "exemplar", it highlighted the need for a continued focus on risk identification, assessment and management. As the implementation deadlines approached, and pressures increased, the lack of specialist knowledge and experience of such a complex IT programme resulted in greater reliance being placed by NHS 24 on suppliers for technical risk assessment.
76. We are pleased to note the recent appointment of a dedicated Future Programme Director with relevant experience to lead the resolution of outstanding contractual disputes and to lead the Programme to a conclusion. The risk assessment currently being undertaken should help ensure that risks are clarified and addressed in revised Future Programme plans.

Financial impact – ultimate outcome still unclear, but significant risk to the Board

77. NHS 24 has invested a significant amount of time, resource and funding in the Future Programme. Total contractor costs to date (including contract payments withheld of £2.7m) are £29.9m. In house NHS 24 costs to date amount to £8m. This total cost to date of £38m is considerably more than the original business case of £29.6m due to changes in the contract specification and the costs of delay.
78. NHS 24 has considered the financial implications of the position to date, the decision criteria which need to be considered and the range of potential scenarios which are available. The Board's preferred scenario is to continue to work with Capgemini. All of the scenarios considered have benefits and challenges associated with them. They also all involve a further delay of implementation to the second half of 2015/16 and further significant additional cost. The additional cost of the preferred solution of continuing to work with Capgemini has been estimated at £14.6m although this figure is liable to change.
79. Total brokerage funding from the Scottish Government has to date been £20.756m plus £0.8m of Annually Managed Expenditure (AME) funding. The profiles of cost which support the preferred scenarios outlined

above impact on the ability of NHS 24 to repay the brokerage claimed to date in line with the original repayment timetable. Indeed, all the remaining options require at least some additional brokerage as well as further efficiency savings being delivered internally. NHS 24 will not be able to deliver a recurring surplus until the repayment of all brokerage.

80. It is important that NHS 24 continue to take all available steps to resolve the current impasse. A revised business case needs to be prepared covering all of the costs to date and a realistic estimate of the ongoing investment required to allow all stakeholders to objectively assess the viability and sustainability of the Programme.

Action Plan Point 3

Performance

81. NHS 24 has an established and generally effective 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 service performance targets are included in NHS 24's performance management reports.

HEAT and performance targets

NHS 24 has achieved 19 of 20 HEAT targets, as at the end of March 2014

82. NHS 24 met Corporate Performance Targets and Standards (HEAT targets, Internal Standards and Quality Strategy Measures), as specified under the Local Delivery Plan for 2013/14.
83. NHS 24 regularly monitors the progress made against the HEAT targets under monthly reports which are presented to all Board meetings. As at 31 March 2014, NHS 24 met all but one of the HEAT targets. NHS 24 achieved 16 out of the 17 Core Targets and all of the Internal Standards were met. The details are summarised below:

Table 4: Performance against HEAT targets

	LDP – Core Targets		Internal Standards	
	Total	On-target	Total	On-target
Health Improvement	3	3	-	-
Efficiency	4	3	2	2
Access	9	9	1	1
Treatment	1	1	-	-

(Source: Corporate Performance Report)

NHS 24 did not meet the carbon emissions reduction target of 5%

84. The Board was only slightly below its 5% target, achieving a reduction of 4.6%. (It should be noted that NHS 24 is expecting to achieve the overall target of 20% reduction in carbon emissions by 2016).
85. Further to the above, NHS 24 achieved 11 out of 12 Quality Strategy Measures set by the Board. NHS 24 delivered 89% against the target 90% satisfaction rate for patient experience.

All service monitoring targets were achieved for each month of 2013/14

86. Further to the core HEAT and local performance targets, NHS 24 reviews the operational performance against operational targets. The targets are reviewed every month, with reports being presented to the Board every month. The service delivery key performance indicators are reviewed on a daily basis by the operational team. A review of the performance is also discussed at weekly operational management team meetings.

87. NHS 24 has three service delivery key performance indicators, reporting that the following targets have been met on a month by month basis:

- Call handlers to answer 90% of calls from Patients within 30 seconds
- To commence 90% of GP priority calls within 20 minutes
- To commence 90% of GP routine calls within 60 minutes

Governance

88. The Accountable Officer and the Board are responsible for ensuring the proper conduct of the Board's affairs, including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.
89. We have found that the Board has generally appropriate governance arrangements in place. Our work involved reviewing the Board's arrangements for:
- systems of internal control;
 - risk management;
 - the prevention and detection of fraud and irregularity; and
 - standards of conduct and the prevention and detection of bribery and corruption.
90. However, the Future Programme delay has resulted in significant operational and financial management implications. The organisation must continue to reflect on the programme management and programme governance lessons related to the Future Programme. The Board has rightly made disclosure in relation to the Future Programme in the 2013/14 Governance Statement, within the annual accounts.

Governance arrangements

91. The Board continues to receive regular performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are identified and discussed.

Governance Statement – Future Programme issues disclosed

92. Given the significant and ongoing issues with the Future Programme, the Board has made a disclosure about this Programme in its 2013/14 Governance Statement. This has been an increasingly visible and significant issue discussed at Board level, including seeking approval over the way forward for the Programme in the face of financial, operational and partnership-working challenges.

Systems of internal control

93. In line with ISAs we have considered the internal controls in place over the Board's key financial systems. We identified no significant weaknesses in relation to the operational internal financial controls in place over the Board's key accounting systems. We found the internal financial controls to be generally well designed and operating effectively.

Internal audit

94. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by PwC. In accordance with ISAs we have considered the function provided by PwC and have concluded that the service is fit for purpose. To avoid duplication of effort and to ensure an efficient audit process, we have taken cognisance 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.

Future Programme reviews

95. During 2013/14, in response to the concerns around the Future Programme, several external reviews were commissioned by NHS 24 and the Scottish Government. NHS 24 is considering the actions to be taken in response to these reports.

Risk management

96. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision-making, better use of limited resources and greater innovation.
97. The Board has a Risk Management Strategy in place, including procedures for risk identification, categorisation and assessment. The Strategy also defines the responsibilities of all appropriate committees, responsible risk officers and management/employees.
98. A Risk Management Steering Group is in place. It is responsible for overseeing the identification and monitoring of risks, providing quarterly updates to the Board. The Audit Committee also include risk as a quarterly agenda item. An Operational Risk Management Group is in place for sharing risk information across the Board, reporting to the Risk Management Steering Group.
99. The Board has a Corporate Risk Register and Directorate-level registers. All risks are allocated to a 'risk lead', and review dates are documented. The Board has a risk register in place for all major projects, including one dedicated to the Future Programme (reviewed and updated through the Future Service Committee). However, as of December 2013, this has been the responsibility of the Board (reflective of the significant challenges of successful delivery of the programme, as discussed above).
100. Overall, we found the Board's risk management arrangements to be adequate.

Prevention and detection of fraud and irregularity

101. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. During the year we have found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

102. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. We are required to consider the Board's arrangements for each NFI. In our interim audit we reported that the Board's approach to the most recent (2012/13) NFI exercise was satisfactory.

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

103. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are sufficient and appropriate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We have also considered the

controls in place to ensure compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

Appendix 1 - Action Plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during 2013/14 in the course of our financial statements audit.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board 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	Explanation
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.

No	Title	Issue identified	Risk and recommendation	Management comments
1.	Asset write off	In 2013/14, £0.210 million of multimedia equipment has been written off from assets under construction (deemed superseded by the Future Programme).	<p>The Board has a responsibility to deliver value for money, and it is unclear how that has been achieved in this particular case.</p> <p>Business cases should be as robust as possible, including consideration of the risk of obsolescence between the time of approval and deployment of any new asset.</p> <p>Grade 3</p>	<p>The Director of Finance initiated a review to determine why an asset purchased as recently as 2011 is now not deemed viable either with the current or the proposed new system. The Director of Finance will ensure that business cases are prepared to support all significant purchases going forward.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: 30 September 2014</p>
2.	Lease sign off	NHS 24 entered into a lease agreement for the use of contact centre accommodation within NHS Grampian. NHS 24 moved into the building on 1 April 2013 but the lease was not signed by the Board until 28 August 2013.	<p>Utilising premises without a signed lease agreement increases risk in terms of financial, contractual and operational impact, without a clear contract to fall back on in the event of dispute(s).</p> <p>All lease and contractual documents should be agreed and signed off before the arrangements commence.</p> <p>Grade 2</p>	<p>This recommendation is accepted and all future premises lease arrangements will be concluded more timeously.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: 30 June 2014</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3.	Future Programme	It is important that NHS 24 continue to take all available steps to resolve the current impasse with the Future Programme.	A revised business case needs to be prepared covering all of the costs to date and a realistic estimate of the ongoing investment required to allow all stakeholders to objectively assess the viability and sustainability of the Future Programme. Grade 5	Work is underway to prepare a revised business case. This involves an assessment of the further investment required to conclude the programme and the level of resource required to maintain current systems in the interim period. Responsible officer: Chief Executive Implementation date: November 2014
4.	Follow up of prior recommendations	The following issues raised in prior periods have still to be fully addressed: <ul style="list-style-type: none"> • Circular compliance/audit trails • Journal entry back up, in compliance with the NHS 24 Financial Operating Procedures • VAT returns – compliance to timetable • Pension scheme – accuracy and timeliness of information 	NHS 24 management should continue to seek implementation of these issues, as far as possible, to support sound internal control. Grade 2	The Director of Finance will ensure systems and processes are strengthened to address the first three issues. In relation to the last issue on the accuracy and timeliness of pension information, this is an issue which requires national resolution and the Director of Finance will ensure that this position is monitored carefully and any action required taken timely by the Board. Responsible officer: Director of Finance Implementation date: 30 September 2014

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