



NHS National Services Scotland

Annual report on the
2013/14 audit

Prepared for the Board of NHS National Services
Scotland and the Auditor General for Scotland
June 2014

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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Audited financial statements submitted to Scottish Government by 30 June 2014.

Financial position

- All financial targets in 2013/14 met:
- Surplus against total RRL of £0.608 million.
- Cash releasing efficiency savings (CRES) of £10.432 million against a target savings of £8.246 million.
- Financial management remains strong with a robust budget setting and monitoring process in place.

Governance & accountability

- The Board had sound governance arrangements in place.
- The Board has an effective internal audit function and sound anti-fraud arrangements.

Best Value, use of resources & performance

- The Board is further developing its framework for monitoring and reporting performance.
- In 2013/14 the Board met or exceeded 94% of its HEAT targets.

Outlook

- A breakeven position in each of the next five financial years is forecast. This will only be achieved if a combination of efficiency savings and new or increased income are realised to bridge the funding gap.

Financial Statements

We have given an unqualified audit opinion on the financial statements of NHS National Services Scotland (NHS NSS) for 2013/14.

The Board achieved all of its financial targets in 2013/14 and returned a surplus against its total Revenue Resource Limit of £0.608 million.

The Board achieved savings of £10.432 million against a planned savings target of £8.246 million.

Financial management remains strong with a robust budget setting process and challenge evident in agreeing and monitoring the financial position of the Board.

Financial position

The five year financial plan assumes a 1% baseline increase each year and incorporates cash efficiencies, required by the Scottish Government, of £4.000 million and £1.500 million in 2014/15 and 2015/16 respectively. Further savings of £8.461 million rising to £8.758 million are factored in for each year of the plan. Achieving the financial plan represents a considerable challenge.

Achievement of financial balance is largely dependent on the successful delivery of a comprehensive cost savings plan and increased income from other public sector bodies. The Board recognises that the level of risk associated with the plan is higher than in previous years.

The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings. However, given the Board's assessment of the risks it faces in delivering the current financial plan, financial sustainability under the current funding model remains more challenging than in previous years.

Key strategic programmes to achieve the Board's financial plan include 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. These change programmes are supported by efficiency initiatives being driven by strategic business units (SBUs) as part of their financial and business strategies.

Governance and accountability

In 2013/14, the Board had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. The Board also had an effective internal audit function and sound anti-fraud arrangements.

Although NHS NSS is not directly affected by the integration of health and social care in the same way as territorial health boards, until there is clarity as to future governance structures, some of its services and income streams may be more variable or open to competition than is currently the case. NHS NSS will remain a key provider of services to the delivering entities. A key issue will be, depending on local structures for delivery, how these entities choose to comply with procurement regulations. NHS NSS

continues to work with the Scottish Government on the implications of the Act.

Best Value, use of resources and performance

The Board has a Finance and Performance Committee. Its remit includes reviewing financial performance and ensuring that the 2013/14 financial plan was achieved. The Finance and Performance Committee also plays a key role in monitoring performance against national targets.

During 2013/14 NHS NSS carried out a self-evaluation exercise on progress towards implementing the best value framework. Positive progress was reported against use of resources, sustainability and equality but it also identified some areas as requiring further development. NHS NSS aims to incorporate the application of the best value framework in its forthcoming review of its corporate strategy and the associated implementation plan.

NHS NSS has made good progress in implementing the recommendations from Audit Scotland and the Parliamentary Public Audit Committee concerning the improvements to the collection, analysis and reporting of information on the management of patient waiting times.

NHS NSS achieved or exceeded performance in 94% of its key performance measures. Of the measures which were not achieved, none were assessed as having a business, clinical or reputational risk.

As part of our 2013/14 audit work we considered NHS NSS performance against Audit Scotland's Asset Management Best Value toolkit. Elements of better and advanced practice were identified, however due to the individual nature of asset management within each SBU the scope of our work was limited.

Outlook

The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings and additional income each year to compensate for the gap between available funding and the cost of services. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years.

The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The potential for a changing political and fiscal landscape following the independence referendum in September adds a further layer of uncertainty in the coming years. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

This report is a summary of our findings arising from the 2013/14 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 from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHS NSS, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHS NSS is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the Board and the Auditor General for Scotland and should form the basis 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.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of **local and national reports** have been issued during the course of the year. These reports (**appendix I**) include recommendations for improvements. 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.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the **key audit risks** identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III 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 "Management action/response".

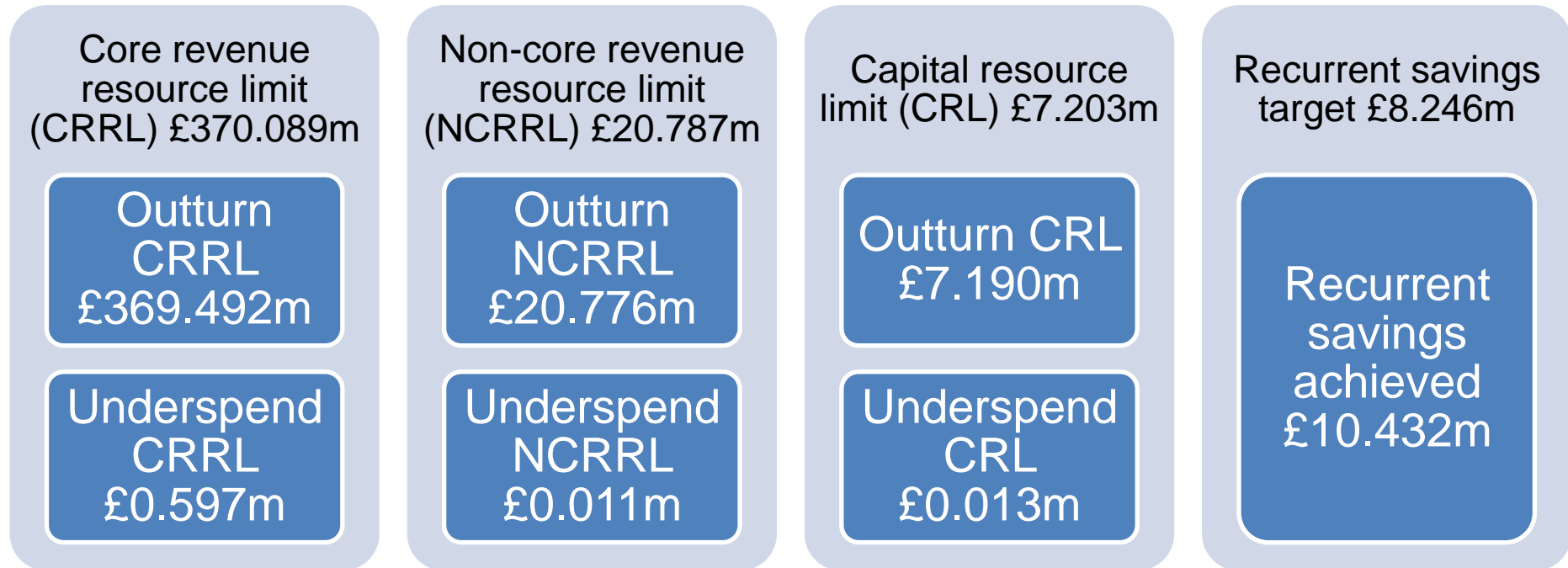
We recognise that not all risks can be eliminated or even

minimised. What is important 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 proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of NHS NSS for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

Other information published with the financial statements

Auditors review and report on other information published with the

financial statements, including the Directors' Report, Strategic Report, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

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 through a range of procedures, including sample testing of transactions and obtaining written assurances from the Accountable Officer. No issues require to be reported.

Accounting issues arising

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to reduce expenditure and increase net assets by £0.019 million.

In addition, a small number of other errors (net effect £0.007 million) were identified during the course of the audit. Management elected not to adjust for these errors.

The 2013/14 accounts manual requires host boards to consolidate NHS endowment funds established by the National Health Service (Scotland) Act 1978, where material, into their financial statements. NHS NSS has no material endowment funds.

Report to those charged with governance

We presented to the Audit and Risk Committee, on 18 June 2014, our report to those charged with governance (ISA 260). The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following

paragraphs.

Scottish Wide Area Network (SWAN) Contract

Following the tendering process for the SWAN project, one of the unsuccessful bidders is seeking damages through the courts. NHS NSS is defending the action, but there is a risk that the court awards damages in favour of the litigant. NHS NSS is in ongoing dialogue with the litigant and there remains a possibility that an out-of-court settlement can be reached. A provision for an out-of-court settlement, for an amount which NHS NSS believes is reasonable based on discussions with the litigant, has been made in the financial statements.

Blood Tissues and Cells (BTC) facility, Liberton Edinburgh - Impairment

After the balance sheet date the full business case was approved for the transfer of the BTC to a new national centre, which includes activities currently provided out of the BTC buildings at Liberton, Edinburgh. No impairment of the Liberton facility was recognised in the financial statements for 2013/14. It is planned to impair the Liberton facility fully from 2014/15 to the final year of its operation to reflect its net realisable value at that time.

Capital additions – mammography units

As part of phased three year programme to upgrade static and mobile breast screening units from analogue to digital, an order for a second tranche of equipment and trailers was placed in January

2014. Contractor delays in providing IT equipment and software to support the upgrade have resulted in most of the equipment not being commissioned as planned. The equipment was placed in storage during March 2014 and remained in storage at the end of the financial year. As the equipment was inoperable without additional components, it has been recorded in the balance sheet as "assets under construction".

Action plan no. 1

Overpaid exit packages

Testing of exit packages identified one early departure where the individual had been overpaid by £0.019 million. Payment to the ex-employee was made in May 2013. Further audit work was undertaken on all exit payments made, to establish whether there were any further instances of incorrectly calculated exit packages. No further instances were found.

Since we reported this to the Audit and Risk Committee on 18 June 2014, it has come to our attention that a second exit package of approximately £0.090 million was paid in error, although this had been fully recovered during the year.

Our review of Internal Controls report (April 2014) noted that our testing identified a number of instances, across several systems including payroll, of control procedures not being adequately evidenced. Management should ensure that adequate instruction on the clerical, authorisation and validation procedures to be

followed are issued and followed.

Action plan no. 2

Recognition of grants received

Testing of grants received identified one instance, amounting to £0.078 million, where income was incorrectly accrued. The grant specified key milestones for a pharmaceutical trial, with stage payments being made to NHS NSS as each milestone was achieved. At 31 March 2014 the final milestone had not been achieved. Further audit work was undertaken to establish whether there were any further instances of incorrectly accrued grant income. No further instances were found.

Capitalisation of IT enhancements

Management identified £0.065 million of expenditure on software costs which had been incorrectly capitalised. To correct this error, the expenditure should have been written out of non current assets and charged to revenue. However, to adjust for this error NHS NSS increased depreciation by £0.065 million. While this corrected the net book value of non current assets, both the cost and depreciation within the balance sheet are overstated.

Depreciation charges are made against the depreciation resource limit, an element of non-core revenue resource limit (RRL). The result of the error is to understate the saving on non-core RRL by £0.065 million and overstate the saving on core RRL by the same

amount.

Equal pay

The National Health Service in Scotland has received a significant number of claims for equal pay of which nine relate to NHS NSS.

In common with other NHS boards, NHS NSS has not been able to quantify the extent of its liability for equal pay claims and has disclosed a contingent liability.

Action plan no. 3

Outlook

The financial statements of the Board are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities

Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHS NSS.

Financial position

NHS NSS is required to work within the resource limits and cash requirement set by the SGHSCD. Final RRL and CRL were agreed with SGHSCD on 30 May 2014. The Board achieved all of its financial targets in 2013/14.

The Board budgeted to break-even against its Revenue Resource Limit in 2013/14; a cumulative surplus of £0.608 million was reported for the financial year.

Capital expenditure

The Board spent a total of £7.190 million on capital projects during 2013/14. This amount was within its total Capital Resource Limit (CRL) of £7.203 million. The main areas of spend were on medical equipment (breast screening refresh) and IT equipment.

Financial sustainability

The Board's Local Delivery Plan (LDP) for 2014/19 aligns strategic priorities with financial plans, workforce plans and service delivery plans. The five year financial plan assumes a 1% baseline increase each year and incorporates cash efficiencies, required by SGHSCD, of £4.000 million and £1.500 million in 2014/15 and 2015/16 respectively. Further savings of £8.461 million rising to £8.758 million are factored in for each year of the plan.

Achievement of financial balance is largely dependent the successful delivery of a comprehensive cost savings plan and increased income from other public sector bodies, principally health boards. Income from other public bodies has grown by some 49.3% to £246 million over the past five years. Over the life of the current five year plan it is expected that income from this source will rise by a further 10.4% to £271 million.

Achieving the financial plan represents a considerable challenge. The Board recognises that the level of risk associated with the plan is higher than in previous years. A number of risks have been identified which have the potential to impact on achievement. The three high risk areas are:

- Further cash efficiency savings imposed by the Scottish Government.
- Volume/cost reductions in service take up from health boards.
- National Services Division (NSD) budget deficit will be resolved through the National Specialist Services Committee and will have no impact on the NHS NSS budget.

The Board and management of NHS NSS recognise that there are three risks, rated as “likely to occur”, which may adversely affect the organisations ability to successfully deliver its financial plan. These are:

- Failure to deliver cohesive strategic direction due to a lack of clarity within its vision.

- NSS may have insufficient ability to influence in a changing environment with limited access to key influencers.
- As the demand for existing services changes and new services are brought on stream, NSS is unable to deliver the expected volume and quality of new services whilst maintaining a budget balance and current services.

The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings. However, given the Board's assessment of the risks it faces in delivering the current financial plan, financial sustainability under the current funding model remains more challenging than in previous years.

Quality and Efficiency Service Transformation (QuEST)

This programme supports the strategic plan to address the longer term needs of NHS NSS. The programme has two key strands. The first concerned an organisational restructure into a smaller number of strategic business units; this was completed during 2013/14. The second strand is planned to continue until 2017, and focuses on a range of areas including customer relations, service management, service improvement, process management, people and communications.

Internal audit have work planned on QuEST as part of their 2014/15 audit plan. We understand that this will review progress to date, and assess the adequacy of the programme going forward. We will

consider the outcome of this work as part of our 2014/15 audit.

Accelerated Shared Services Programme

The Accelerated Shared Services Programme is an important collaborative workstream designed to extend the potential for greater sharing of public services. Following a consultation process a range of services including legal services, procurement and information technology were prioritised as services which NHS NSS could provide, on a shared service basis, to the wider public sector. The Accelerated Shared Services Programme is an important strategic component of the future business plans for NHS NSS. Uptake of services by other public bodies has, so far, been limited.

Workforce reduction

Workforce planning is one of the strategic arms of the corporate planning process which supports the Local Delivery Plan. The Board agreed a workforce plan to cover the period 2012-17. The overall trend illustrated in this plan is that the whole time equivalent workforce numbers will reduce across 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 services.

The 2013/14 financial statements include £0.413 million of costs relating to six individual exit packages agreed as part of the Board's Voluntary Severance Scheme (VSS). 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 and approved by the Remuneration Committee. Management should consider evaluating procedures against the principles of good practice set out in Audit Scotland's 'Managing early departures from the Scottish public sector' published in May 2013 with a view to assessing and, if necessary, enhancing procedures already in place.

During 2013/14 the Board incurred £3.878 million (2012/13 £2.565 million) costs in relation to agency staff, representing 3% of payroll costs. Management advised that this was due, in the main, to increased IT service provision. Continued reliance on agency staff to this extent may impact on the Board's plans to achieve the savings required for longer term sustainability. Management should ensure that alternative resourcing has been considered where agency staff are employed and that the costs incurred represent best value.

Cost of pension provision

The most recent actuarial valuation on the NHS Superannuation Scheme is for the year ended 31 March 2004. An actuarial valuation is currently underway and publication is expected later this year. Periodic actuarial valuations determine the adequacy of employer and employee contributions to the scheme, publication of the new actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the scheme. Future, increased, contribution rates will need to be managed as

part of the cost base. NHS NSS has allowed for an estimated additional £2 million per annum from 2016/17 in anticipation of revised employer contributions.

Changes to pensions legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a workplace pension scheme. For NHS NSS this means that all employees between 22 and state pension age who earn more than the earnings trigger were automatically enrolled in either the NHS Pension Scheme or another qualifying scheme. Of the 394 eligible employees who were auto enrolled in July 2013, 217 (55%) remained in the scheme. The five year financial plan, prepared in autumn 2013, includes the assumption that 25% of employees who have been auto enrolled will remain in the scheme. The potential cost of the difference between actual opt-out rate and assumed opt-out rate, based on the subsequent increase in the monthly employer's superannuation costs, is of the order of £0.270 million per annum. Management should, therefore, monitor increases in costs closely to gain a better picture of the financial impact of auto enrolment.

Action plan no. 4

Outlook

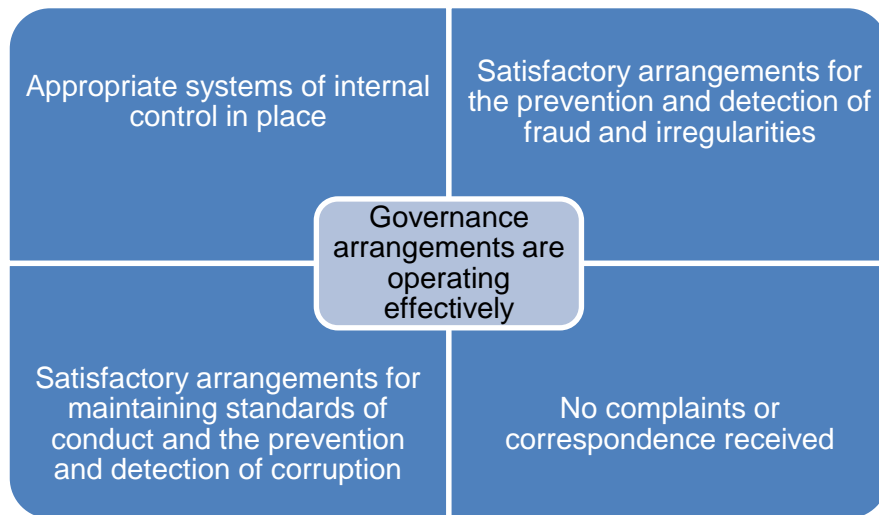
The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of

services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The cost of pension provision and liabilities in respect of equal pay compensation are issues which will impact on the future financial position of the Board.

The Scottish independence referendum in September, regardless of the outcome, is likely to change the political and fiscal environment within which NHS NSS operates and adds a further layer of uncertainty to the organisations financial plans.

Governance and accountability



The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS NSS and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within NHS NSS is centred

on the Board and supported by a number of standing committees.



During 2013/14 the Board conducted a review of its governance arrangements following which it resolved to shift the balance of focus of the Finance and Performance Committee to have a greater emphasis on performance. It also resolved to establish an Information Governance Committee remitted to consider and scrutinise NSS compliance with the law as it relates to information governance.

Based on our observations and audit work our overall conclusion is that the governance arrangements within NHS NSS operated effectively throughout 2013/14.

Internal control

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 payroll, inventories, trade receivables, capital accounting, and general ledger. We also relied on previous years' audit work and work completed by Internal Audit, in relation to elements of trade payables, and trade receivables. In these areas we carried out a high level review of key controls to confirm they were still operating effectively. Our overall conclusion was that NHS NSS had appropriate systems of internal control in place during 2013/14 although some enhancements to the existing control regime were recommended in our report to management.

Internal audit

Internal audit provides the Board and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. The internal audit function at NHS NSS is contracted out to Pricewaterhouse Coopers LLP (PwC).

In an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit and to determine the extent to which we can place reliance on its work. Our review of internal audit was carried out in May 2014 and concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards and has sound

documentation standards and reporting procedures in place.

In 2013/14 changes were made by PwC to the format of their annual internal audit report. At its meeting of 14 May 2014 the Audit and Risk Committee expressed its dissatisfaction with the amended format and subsequently a change was made to the annual report to include an overall opinion on the Board's internal controls. We recommend that for 2014/15 management engage with PwC to ensure that the internal audit annual report includes explicit statements to cover the areas of assurance prescribed in the Scottish Government guidance on Governance Statements.

PwC reported that whilst they did not identify any weaknesses they considered should be reported in the annual Governance Statement, other weaknesses were identified within the internal control framework which related to individual high risk rated findings, or high overall risk rated reports. Reports which included high risk findings were Flexible Working System Controls, Clinical Governance – Patient Group Directions, Information Governance Arrangements – Electronic Access to Patient identifiable Data.

On our recommendation, management agreed to reflect these high risk findings in the revised 2013/14 Governance Statement.

Responses to the recommendations made in the Internal Audit reports have been provided which, when actioned, should give management additional comfort that the systems of control operate as intended.

Action plan no. 5

ICT audit

ICT security is an area of high risk particularly with the sharing of information between NHS bodies and outside agencies. Although NSS suffered a number of minor breaches in data protection, confidentiality and security, overall we were satisfied that the Board has adequate IT governance arrangements in place. We also acknowledge that NHS NSS views information governance, and the associated risks of data management and security, as an important aspect of current and future business. The establishment of an Information Governance Committee will further enhance arrangements.

During 2013/14 internal audit completed a review the governance arrangements over business continuity arrangements. Three SBUs were considered; Blood, Tissues and Cells; Practitioner and Counter Fraud Services and Information Technology. The review concluded that within NSS, governance structures are in place and are adequately constituted, that the annual testing and review of Business Continuity plans is monitored by the Resilience Group throughout the year and a record is maintained of the testing. No critical or high risk areas were identified by the review but three medium risk areas were noted. Management have agreed to respond to the risks identified.

Arrangements for the prevention and detection of fraud

The Board's arrangements in relation to the prevention and

detection of fraud and irregularities were satisfactory.

NHS NSS participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

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 record in this report.

Correspondence referred to the auditor by Audit Scotland

No correspondence was received.

Integration of adult health and social care

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act sets out the framework for the integration of health and social care services in Scotland. The Act also empowers NHS NSS to provide services to substantially all

Scottish public bodies.

At present, NHS boards purchase goods and services from NHS NSS in compliance with European procurement regulations. There is no requirement for a formal procurement process, as money is being spent wholly from the NHS budget. Future purchasing entities will be dependent on the integration model adopted in each local authority area. In future NSS will need to work closely with other public sector entities to understand how they plan to comply with procurement regulations. NHS NSS continues to work with the Scottish Government on the implications of the Act for the health and social care sector.

Equality Act 2010

The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. To allow the public to assess an organisation's performance on equality the Act requires publication of information on actions taken and the progress made to achieve equality outcomes. The Board must review its outcomes and publish a review by April 2015.

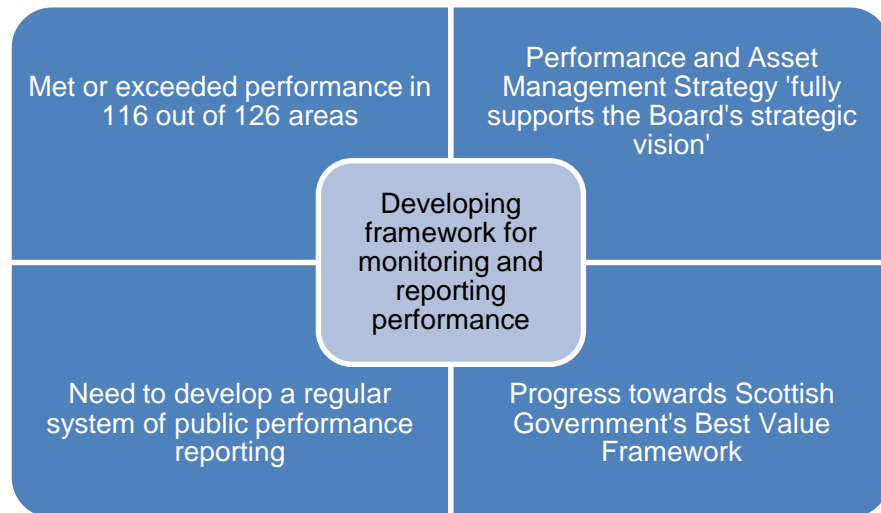
The NHS NSS Equality and Diversity annual report, published in January 2014, highlighted the activity, progress and gaps in relation to equality and diversity across its services. The report highlighted that all of the publication requirements in relation to the employment duties under the act were met, apart from employee retention and attrition information. To address this, NSS Human

Resources are developing an action plan which will be implemented in the Autumn of 2014. Progress will be reported to the Board in early 2015, meeting the reporting requirements of the Act.

Outlook

Integration of services across the public sector will continue to be a complex and challenging process, and the Board will need to continue to engage at the highest level with other public sector bodies and the Scottish Government, to ensure that the development of shared services continues. NHS NSS has put in place a number of initiatives to promote and support public sector reform. Shared services, such as the Scotland Wide Area Network and the Accelerated Shared Services Programme are good examples, but the continued success of such projects will depend upon overcoming a range of financial and governance barriers.

Best Value, use of resources and performance



Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. This required public bodies to take a systematic approach to self evaluation and continuous improvement.

NHS NSS reported its position against the Scottish Government's best value framework to the Finance and Performance Committee in August 2012. A follow-up paper was reported to the Executive Management Team in November 2013 and biennial reviews will be reported to the Finance and Performance Committee from May 2015.

A report to the Executive Management Team in November 2013 reported positive progress against use of resources, sustainability and equality. While progress against other objectives achieved an overall rating of green or amber, a number of areas were identified as requiring further development including:

- development of a public performance reporting system that will enable stakeholders to compare information against a range of defined factors;
- development of a robust system of assurance on regulatory compliance;
- development of a system of strategic engagement with key external stakeholders and customers.

NHS NSS aims to incorporate the application of the best value framework in its forthcoming review of corporate strategy and associated implementation plan. We will continue to monitor progress during 2014/15.

Scottish Wide Area Network SWAN

Following the tendering process for the Scottish Wide Area Network SWAN project, one of the unsuccessful bidders sought,

through the Court of Session, to have the award annulled and the process rerun. Lord Malcolm ruled that there had been a breach of the Public Contracts (Scotland) Regulations 2012 but declined the application for a rerun, instead indicating that damages were an appropriate remedy. The ruling was based on His Lordship's opinion that the tender document did not adequately disclose the scoring mechanism to be employed in the tender evaluation process. Management should, consider the implications of the ruling on this case for future procurement exercises.

Action plan no. 6

Use of resources: asset management

The Scottish Government Health and Social Care Directorates requires all NHS Scotland boards to have an up to date Property and Asset Management Strategy (PAMS). The PAMS should cover the strategic management of land, buildings and other assets including medical equipment, vehicles and IT. NHS NSS submitted its most recent PAMS in May 2013, covering the period 2013 to 2018.

In its 'Annual State of NHS Scotland Assets and Facilities Report' for 2013, the Scottish Government assessed that NHS NSS PAMS 'fully supports the Board's strategic vision'. In the report NHS NSS achieved the best score of all NHS Scotland boards and the top score against each objective.

Internally, NHS NSS self evaluation of activity against Scottish Government Best Value guidance assessed that fixed assets are

managed efficiently and effectively and that asset bases are aligned appropriately to organisational strategies.

Audit Scotland also considered NHS NSS performance against its Asset Management Best Value toolkit during 2013/14, as was appropriate to the specialist nature of NHS NSS.

Each SBU manages its assets independently according to strategic requirements. Arrangements for monitoring the performance and use of assets vary accordingly and are tailored to the individual needs of the SBU. The work identified elements of better and advanced practice.

Performance management

The Board has a well-developed Performance Management Framework in place. A new Corporate Performance Framework, the Decision Support Tool (DST), has been developed which seeks to ensure that corporate reporting of organisational performance is appropriate to the needs of the organisation.

As highlighted in the self-evaluation against the Scottish Government's Best Value guidance, improvements are required as to how performance issues are identified, monitored and addressed. Some SBUs do benchmark and use external tools but this is not replicated across the organisation. The review notes that work is ongoing to establish a dedicated customer engagement team and to embed performance management processes throughout the organisation.

The review further identifies that NHS NSS has no regular system of public performance reporting. It identified that further work is required to enable stakeholders to compare performance against defined factors such as objectives and targets, past performance and improvement plans.

We are satisfied that appropriate arrangements were in place within NHS NSS for 2013/14, although the Board has identified some areas which require to be further developed.

National performance audit reports

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. A summary of national performance audit reports, relevant to NHS NSS, is included in appendix I.

Management of patients on NHS waiting lists

Audit Scotland carried out a review of waiting times across the health service in Scotland following reported misuse of patient unavailability codes at NHS Lothian. The resulting report, “Management of patients on NHS waiting lists”, was published in February 2013. The report emphasised the need for independent assurance on the management of waiting times to restore public confidence in the system and recognised the key role of NHS NSS

Information Service Division (ISD) in the collection of data and provision of timely reports to health boards. The recommendations relevant to NHS NSS ISD and the organisation’s initial response to the recommendations are set out in our 2012/13 annual report.

In December 2013 Audit Scotland published “Management of patients on NHS waiting lists – Audit Update” in response to a request, by the Public Audit Committee, for a follow-up review. The report made one recommendation of direct relevance to NHS NSS.

Management of patients on NHS waiting lists- audit update , December 2013

Audit Scotland recommendation:

NHS NSS and territorial boards should work together to put in place the necessary changes to NHS boards’ electronic systems as quickly as possible so that they can provide detailed inpatient waiting times data to ISD Scotland. This will allow better monitoring at a national level and more comprehensive public reporting.

The report also acknowledged that NHS NSS ISD and the Scottish Government have been working closely with NHS boards to implement recommendations from Audit Scotland and the Public Audit Committee.

NHS NSS management have advised that, in response to the recommendation, the roles and responsibilities of ISD and the Scottish Government have been clarified and shared with NHS Boards; monthly meetings now take place with the Scottish Government to discuss any potential or emerging data quality issues and the action being taken; a quality dashboard tool which identifies trends and other relevant information has been developed and is issued to boards and the Scottish Government on a regular basis.

Audit Scotland will continue to monitor progress in this area during 2014/15.

Overview of performance targets in 2013/14

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. These are detailed in progress reports against the LDP, which are subject to detailed scrutiny by the Finance and Performance Committee.

The LDP has been monitored through the new Decision Support Tool since June 2013. The 2013/14 LDP set 44 strategic targets, broken down into 126 measures. The 'NSS Local Delivery Plan 13/14 – Final Report at March 2014' assessed that NHS NSS had achieved or exceeded performance in 94% of these measures. This includes achieving waiting time targets for specialist services; delivering contract savings of £49 million to NHS Boards; and the

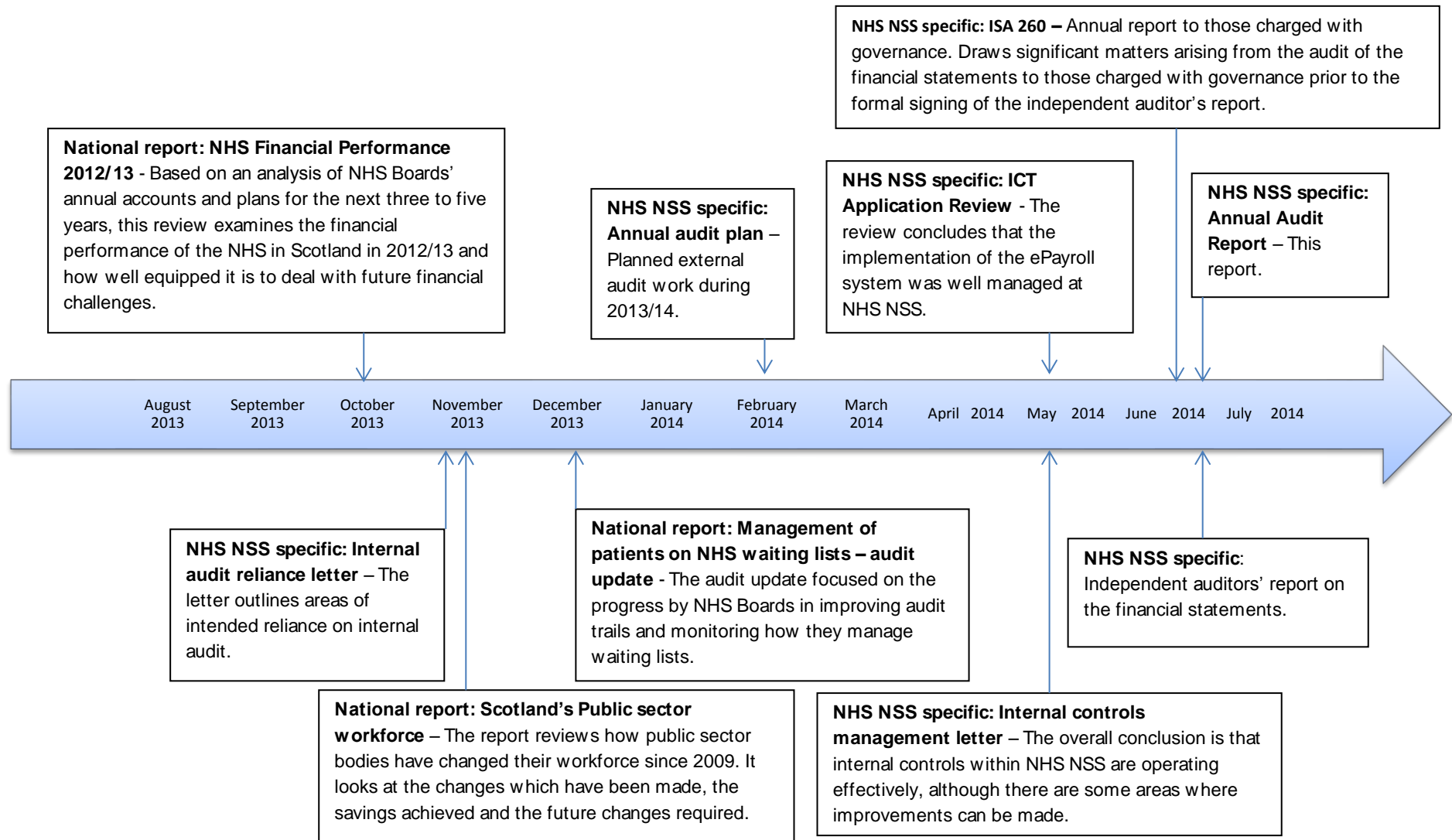
full achievement of the Healthcare Associated Infection Task Force Delivery Plan.

Of the remaining eight measures which were not achieved, none were assessed as having a business, clinical or reputational risk. We will continue to monitor performance against LDP targets during 2014/15.

Outlook

In common with other NHS Boards, NHS NSS faces unprecedented demand for increased and improved services arising from changing demographics, lifestyles, health inequalities, increasing public expectations, the availability of new drugs, treatments and technologies and the impact health service specific inflation. As demand, and the consequent cost of healthcare, continues to grow, the Board will struggle to deliver at current funding levels. The scope of what can be done to respond to tough financial pressures is limited: services will need to be transformed to improve quality, while also making them more efficient and sustainable.

Appendix I –Summary of Audit Scotland reports 2013/14



Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Failure to meet financial targets.	The funding allocation to NHS NSS was confirmed to the Scottish Government notification dated 30 April 2014.
	We concluded from the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.
	A transfer between core and non-core RRL, in recognition of the creation of a provision for a potential out of court settlement in respect of the SWAN contract was agreed to Scottish Government letter of 30 May 2014.
There is a risk of weaknesses in internal controls following the introduction of the national payroll system.	Testing of key controls was undertaken as part of our review of payroll controls.
	Analytical review procedures were undertaken as part of our financial statements audit.

Audit Risk	Assurance procedure
<p>Following the tendering process for the SWAN project, one of the unsuccessful is seeking damages through the courts.</p>	<p>Discussed progress of resolution with Director of Finance. Obtained documentation relating to negotiations and formed a judgement on the adequacy of the provision made.</p> <p>Disclosures in the financial statements were reviewed and agreed with the Director of Finance.</p>
<p>There is a risk of error in the opening balances of the segmental information contained within the 2013/14 financial statements if general ledger codes have not been realigned correctly following changes to NSS's internal structure.</p>	<p>Working papers demonstrating the restated segmental information were obtained and checked to ensure that opening balances had been accurately translated from previous year structure.</p>

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/8	<p>Breast screening equipment upgrade</p> <p>Contractor delays in providing IT equipment and software to support the upgrade have resulted in most of the equipment not being commissioned as planned.</p> <p>Risk</p> <p>Delayed implementation of improved service to patients.</p> <p>Recommendation</p> <p>Management investigate the reasons for the delay and take steps to mitigate the risk of similar delays arising in the third stage of equipment installation and similar future contracts.</p>	Management will investigate reasons for current delay and monitor the progress of the project during 2014/15.	Director of Procurement, Commissioning and Facilities	December 2014

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/8	<p>Overpaid exit packages</p> <p>Two exit packages totalling approximately £0.110 million were overpaid during the year. Lack of evidencing of controls noted in our Internal Controls report.</p> <p>Risk</p> <p>Control procedures are not being followed by staff.</p> <p>NHS NSS suffers financial loss and reputational damage as a consequence of a failure to apply internal controls as expected.</p> <p>Recommendation</p> <p>Management should ensure that adequate instruction on the clerical, authorisation and validation procedures to be followed are issued and followed.</p>	A full review was carried out in October 2013. Processes and procedures have been updated to improve controls.	Head of Financial Services	Complete

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/9	<p>Equal pay NHS NSS has a small number of claims for compensation in respect of equal pay claims.</p> <p>Risk Settlement of equal pay claims may have an impact on the Board's future financial position.</p> <p>Recommendation The Board should continue to work with CLO to establish its potential exposure to successful claims for compensation payments.</p>	Management will continue monitor the situation	Director of Finance	March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/12	<p>Pension auto enrolment</p> <p>The potential cost of the difference between actual opt-out rate and assumed opt-out rate, based on the subsequent increase in the monthly employer's superannuation costs, is of the order of £0.270 million per annum.</p> <p>Risk</p> <p>Cost outturn greater than forecast and consequent impact on achievement of financial targets.</p> <p>Recommendation</p> <p>Management should, in the light of a full year's figures and experience in 2014/15, re-visit estimates of pension scheme membership retention and consider the implications for the five year financial plan.</p>	<p>The impact of auto enrolment was included in the planning process carried out in the autumn of 2013 covering the period 2014-2019.</p>	<p>Head of Financial Planning and Analysis</p>	<p>Complete</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/15	<p>Annual internal audit opinion</p> <p>In 2013/14 changes were made by PwC's to the format of their annual audit report. At its meeting of 14 May 2014 the Audit and Risk Committee expressed its dissatisfaction with the amended format annual internal audit report and subsequently a change was made to include an overall opinion on the Board's internal controls.</p> <p>Risk</p> <p>The Board does not receive an adequate level of assurance.</p> <p>The Governance Statement does not comply with Scottish Government guidance.</p> <p>Recommendation</p> <p>Management engage with PwC to ensure that the internal audit annual report includes explicit statements to cover the areas of assurance prescribed in the Scottish Government guidance on Governance Statements and Public Sector Internal Audit standards.</p>	Management will engage with PwC to ensure the wording of the audit opinion reflects the Scottish Government guidance	Head of Risk & Regulatory Compliance	March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/18	<p>Scottish Wide Area Network (SWAN) A breach of the Public Contracts (Scotland) Regulations 2012 in the tendering process for the SWAN contract resulted in a claim for damages against NHS NSS.</p> <p>Risk Financial loss and reputational damage.</p> <p>Recommendation Management should, should consider the implications of the ruling on this case for future procurement exercises.</p>	<p>Management will ensure any implications/recommendations of this ruling are reflected in future procurements.</p>	<p>Director of Procurement, Commissioning and Facilities</p>	<p>March 2015</p>