NHS 24

External Audit Annual Report to the Board and the Auditor General for Scotland 2014/15

July 2015

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business advisers and accountants

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Executive summary

Financial statements

NHS 24's financial statements were approved by the Board on 25 June 2015. Our audit of the financial statements is complete and our independent auditor's report included an unqualified opinion.

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable and document requests. 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.

The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2015 deadline.

Use of resources and performance

NHS 24 met all of its financial targets during 2014/15. The Board reported a surplus of £1.799 million against its Revenue Resource Limit (RRL) of £69.742 million.

As part of its 2014/15 Local Delivery Plan (LDP), NHS 24 allocated £5 million to a "Future Programme Implementation Reserve" to cover costs associated with the Future Programme development during 2014/15. However, only £3.3 million of this reserve was used in 2014/15; this position was agreed with Scottish Government Health & Social Care Directorate (SGHSCD) at the end of January 2015. The vast majority of the overall RRL surplus is therefore due to this planned underspend. SGHSCD has confirmed that NHS 24 can carry forward this surplus into 2015/16.

Between 2011/12 and 2013/14, NHS 24 has received £20.756 million brokerage from SGHSCD to support the non-recurring implementation costs relating to the Future Programme. NHS 24 was able to repay £0.4 million brokerage in 2014/15. This leaves £20.356 million brokerage to be repaid as at 31 March 2015.

The 2015/16 LDP has been approved. However, a revised version had to be submitted to incorporate an increase in the cost profile associated with the Future Programme. The revised LDP was approved by the NHS 24 Board in June 2015. This was then submitted to SGHSCD for their consideration and was approved on 2 July 2015.

The total cost of the Future Programme over the 10 year contract period has risen to £117.4m, compared to an original business case cost of £75.8m. This significant increase has been caused by additional implementation costs and an increase in recurring post go-live costs. The additional implementation costs include double-running, training, legal, accommodation, travel and contractor and in-house team costs.   Additional post go-live costs have arisen because of gaps identified in the level of required on-going application support. This area is subject to further investigation regarding why this has arisen.

There are substantial financial risks in 2015/16 and beyond. Costs involved in the ongoing implementation of the Future Programme have been fully factored into the Board's financial plans. However, given the scale of the challenge, the delivery of financial targets will be extremely demanding and will largely depend on the achievement of efficiency savings.

NHS 24 has an established performance management framework in place. Directorates provide comprehensive performance information to the executive team and board on a monthly basis. This information covers all performance indicators included within NHS 24’s LDP. Both the core HEAT (Health, Efficiency, Access and Treatment) standards and local performance targets are included in NHS 24’s performance management reports. NHS 24 successfully achieved 18 out of 18 HEAT targets and met one of the two internal standards for 2014/15. All 9 Quality Strategy measures were achieved during 2014/15.

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).

During 2014/15, NHS 24’s internal auditor undertook a review of the Scottish Centre for Telehealth and Telecare (SCTT) strategy and governance arrangements. The review raised some important issues in relation to NHS 24's governance on the direction and performance of SCTT. In addition, issues were raised on the formal approval processes for SCTT activity and how this links to other NHS bodies and SGHSCD.

NHS 24’s internal auditor also identified high risk issues in relation to information governance matters within NHS 24. In particular, these related to the absence of governance overview, the absence of a formal reporting structure, and the lack of a formal control process for requesting modifications for access to corporate folders on the NHS 24 shared network drive. These issues were formally reported to the Audit & Risk Committee in June 2015 and remedial actions will be agreed to address the risks identified.

On 2 July 2015, the Chair of NHS 24 announced that the Chief Executive tendered his resignation and will leave the organisation on 31 July 2015. The Chair is in consultation with the NHS 24 Board and SGHSCD to agree arrangements to cover this departure and will confirm plans in due course.

Conclusion

This report concludes our audit for 2014/15. 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 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 2015

Introduction

1. This report summarises the findings from our 2014/15 audit of NHS 24 ('the Board'). The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit & Risk Committee.

2. The main elements of our audit work in 2014/15 have been:

   - An audit of the financial statements, including a review of the Governance Statement;
   - A review of governance arrangements, internal controls and financial systems;
   - Review of the Board's participation in the National Fraud Initiative; and
   - Collation of information on the Board's financial capacity and the use of temporary staff.

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. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

5. This report is addressed to both members of 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. NHS 24's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Board and the auditor in relation to the financial statements are outlined in Appendix 1.

7. In this section we summarise the issues arising from our audit of the Board's 2014/15 financial statements.

Overall conclusion

An unqualified audit opinion

8. The financial statements for the year ended 31 March 2015 were approved by the Board on 25 June 2015. Our independent auditor's report included:

- an unqualified opinion on the financial statements;
- an unqualified audit opinion on regularity; and
- an unqualified audit opinion on other prescribed matters.

Good administrative processes were in place

9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

10. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2015 deadline.

Our assessment of risks of material misstatement

11. The assessed risks of material misstatement were highlighted in our 2014/15 audit plan presented to the Audit and Risk Committee. These risks had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual financial statements or disclosures. We set out below the risks highlighted in our audit plan together with a summary of our how our audit approach responded to these risks and the conclusions arising from our work.

Table 1: Identified audit risks, approach and conclusions

Planning Audit Risk	How the scope of our audit responded to the risk
Financial position – including Future Programme impact NHS 24 aims to replace its front line application systems and related	We monitored the impact of the delay in the Future Programme and considered the implications this had across the organisation. Our specialist project management auditors undertook a

Planning Audit Risk	How the scope of our audit responded to the risk
IT through its Future Programme. The business case for the programme anticipated significant benefits to the organisation, the public and SGHSCD through enhanced patient service and accommodating the strategic expansion of the service. The Future Programme has experienced significant technical problems and delays, which had financial consequences. This led to the Auditor General making a section 22 report to the Scottish Parliament's Public Audit Committee in October 2014. The total cost of the programme implementation as at the end of the 2013/14 audit process was £38 million, compared to the original business case of £29.6 million. Contract specification changes and delay costs had a significant impact on NHS 24's finances. As noted in the section 22 report, NHS 24 expected to incur further additional costs of £14.6 million to achieve and implement an acceptable solution. This was anticipated to take the total cost to at least £52.6 million, £23 million over the original business case. Management had been in dispute with Capgemini UK over responsibility for the delay in delivering the contract and subsequently responsibility for meeting the additional costs to resolve the issue. At the time of our audit planning, management were working with Capgemini UK although legal proceedings were continuing.	status review to consider the current position of the project during the financial year. We considered the latest legal position regarding the dispute with Capgemini UK and confirmed that all foreseen costs (and brokerage funding in year) had been properly reflected in the financial statements. We also considered the extent to which future costs / benefits of the Future Programme had been incorporated into NHS 24's financial plans. The total cost over the 10 year contract period including implementation and post go-live costs has risen to £117.4m, compared to an original business case cost of £75.8m. Part of the increase relates to additional implementation costs including double running, contractor and in-house team, training, accommodation, travel and legal costs (see Table 12). Additional go-live costs have arisen because of gaps identified in the level of required on-going application support. This area is subject to further investigation regarding why this has arisen and what the implications and options are. NHS 24 has recognised the significant and ongoing risks of the achievement of financial targets. NHS 24 has extended the use of existing systems whilst work continues on the Future Programme (incurring additional licencing and servicing costs). The Board is also required 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, associated with the contract payments, expected from the Future Programme will not be realised. NHS 24 has worked with suppliers over the past year to develop the system and resolve various significant issues. Indeed, on 4 June 2015, a successful mediation process resulted in the long-running legal dispute with Capgemini being dismissed in agreement with both parties. The implementation plan agreed by the Board at its February 2015 meeting proposed a first phase of the system (the migration of the core unscheduled service – representing approximately 90% of NHS 24's activity) becoming operational by 1 November 2015 with a second phase concluded by the end of March 2016. Whilst we have obtained assurance over the 2014/15 Future Programme accounting treatment, the financial implications remain significant and ongoing.

Planning Audit Risk	How the scope of our audit responded to the risk
Revenue recognition Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that NHS 24 could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.	While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied reasonably.
Management override In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".	While we did not suspect any incidences of management override leading to financial reporting issues, we reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly. Based on our audit work to detect potential material misstatement via a range of controls, we have not identified any indications of such management override during the year.
Pensions NHS 24 participates in the NHS Superannuation Scheme for Scotland. This is a defined benefits scheme, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government securities. NHS 24 is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined	We reviewed the national developments in relation to valuation of the NHS Superannuation Scheme for Scotland. We considered the extent to which these impacted on NHS 24 and were appropriately reflected within the financial statements. Based on our audit work, we are satisfied that NHS 24 has correctly accounted for pension costs and made the correct disclosures in accordance with SPPA guidance.

Planning Audit Risk	How the scope of our audit responded to the risk
contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents NHS 24's contributions payable to the scheme in respect of the year. The most recent actuarial valuation was for the year ended 31 March 2012 which identified a shortfall of £1.4 billion in the national fund which will be repaid by a supplementary rate of 2.6% of employer's pension contributions for fifteen years from 1 April 2015. The next actuarial valuation will be undertaken as at 31 March 2016.	

Other matters identified during our audit

12. During the course of our audit work we noted the following:

Post balance sheet event – Future Programme mediation process

13. On 4 June 2015, NHS 24 and Capgemini agreed to dismiss their legal dispute following mediation. The mediation process was concluded with a binding settlement agreement. We concluded that this was an adjusting post balance sheet event, in accordance with *IAS 10 – Events After the Reporting Period*. The draft financial statements were adjusted to reflect a reduction in non-core funding of £800,000 and a corresponding reduction in the provision figure within the draft financial statements. In addition, NHS 24 has made the relevant disclosures in its annual report and accounts regarding this event.

Remuneration report – executive director salary uplifts and performance related pay

14. On 17 March 2014, the Scottish Government issued circular PCS(ESM)2015/1. The circular set out the executive and senior management pay increases for 2014/15, to take effect from 1 April 2014. In particular, the circular set out that each executive director would receive a performance-related pay award of up to 3%, providing the individual was not at the top of their pay scale. All individuals would receive a basic pay uplift of at least 1% unless performance was rated as unacceptable. The relevant amounts were paid to NHS 24's executive directors in April 2015, backdated to 1 April 2014. However, these amounts had not been accrued and included as part of the remuneration report. We agreed that the Board should update the remuneration report to include these figures and we have confirmed that this has been done.

CNORIS 2 provision – split of short-term and long-term provision

15. In April 2015, the Scottish Government provided each NHS board with guidance on recognising an additional provision in relation to participation in CNORIS (Clinical Negligence and Other Risks Indemnity

Scheme). This required a prior year adjustment. NHS 24's total provision for participation in CNORIS as at 31 March 2015 was £0.673 million. This amount has been fully matched with additional Annually Managed Expenditure (non-core funding) from SGHSCD. The guidance from SGHSCD suggested the provision should be split 59% as payable within one year and 41% as payable within one to two years. However, NHS 24 categorised the entire provision as payable within one year. The Board has adjusted the provision to follow the guidance.

Standing financial instructions

16. NHS 24's financial authorities and processes are covered by Standing Financial Instructions (SFIs). The SFIs provide guidance on various aspects of financial management. Whilst the SFIs are subject to continuous review and are updated as required throughout the year, the SFIs were due to be reviewed and updated in full by March 2015. However, we were informed that this has not taken place as planned due to a wider review of the Corporate Governance Manual (of which the SFIs are part). We recommend the SFIs are reviewed and updated as soon as practical.

Action Plan Point 1

Prepayment for license support services

17. NHS 24 has purchased three different license support services from one supplier. The services total £0.242 million. The services were covered by one invoice but all span different time periods. NHS 24 paid the invoice during 2014/15 and has recognised a prepayment in the financial statements to 31 March 2015, as some of the services will be consumed during 2015/16.

18. However, the prepayment is based on the services being provided between 15 December 2014 and 14 December 2015. This is despite one of the services being fully consumed by 31 March 2015. NHS 24 has adopted this approach because the invoice does not attribute individual values to each of the three services. Whilst this will not lead to a material misstatement, NHS 24 should engage with the supplier to obtain a breakdown of the costs attributable to each of the three services in order to calculate accurate prepayments and accruals going forward.

Action Plan Point 2

Our application of materiality

19. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements. For example, the expected degree of accuracy of senior staff and Board members' emoluments may be much greater than that for non-current assets.

20. Our initial assessment of materiality for the financial statements was £1.4 million. This was revised to £1.3 million following receipt of the draft annual accounts for 2014/15. Our assessment of materiality equates to approximately 1.84% of the Board's Revenue Resource Limit (RRL). A key target for the Board is achieving a breakeven position against its Revenue Resource Limit. We consider the RRL to be one of the principal considerations for the users of the accounts when assessing the financial performance of the Board.

21. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then performed audit procedures on all transactions and balances that exceeded our performance materiality. This meant that we were performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Table 2: Assessment of performance materiality

Area risk assessment	Weighting	Performance materiality
High	45%	£0.585 million
Medium	55%	£0.715 million
Low	70%	£0.910 million

22. We reported to the Board all audit differences in excess of £13,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Audit differences

23. Our audit of the financial statements for 2014/15 identified one adjusted difference. This related to the outcome of the mediation process on 4 June 2015 whereby it was identified that a £0.8 million provision relating to the Future Programme was no longer required; NHS 24 agreed to release the provision and reduced its provisions and non-core funding accordingly.

An overview of the scope of our audit

24. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit & Risk Committee in November 2014. The Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

25. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

26. Our standard audit approach is based on performing control tests on the significant accounting systems, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained above.

Regularity

27. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;

- Enquiring of senior management and the Board's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

28. We are pleased to report that we did not identify any instances of concern with regard to the regularity of transactions or events.

Follow up of previous audit recommendations

29. As part of our audit we followed up on the recommendations we raised in 2013/14. Two recommendations raised have yet to be fully implemented. An update is provided at Appendix 3 to this report.

Total number of recommendations raised in 2013/14	Complete
6	4

Qualitative aspects of accounting practices and financial reporting

30. 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 table summarises our findings.

Table 3: Consideration of 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
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.	We have not identified any uncertainties, including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From the testing performed, we identified no significant unusual transactions in the period, beyond the Future Programme as discussed in this report.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	There has been no misstatement in or material inconsistency between the financial statements and management commentary.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statement disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. We continue to monitor developments with the Future Programme, to assess any implications going forward.

Use of resources and performance

Financial and technical setbacks on the Future Programme continue to have a significant impact

31. 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. Overall, we have found that the Board generally has appropriate processes in place to manage its ongoing resources from an 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 forward an agreed technology solution in place to support its activities.

The Board's financial performance in 2014/15

The Board met its key financial targets for the year

32. The Board is required to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As set out below, the Board has met all of its key financial targets in 2014/15.

Table 4: Performance against key financial targets

	Target (£'000)	Actual (£'000)	Saving (£'000)	Target achieved?
Core revenue resource limit	69,341	67,543	1,798	
Non-core revenue resource limit	401	400	1	
Revenue resource limit	**69,742**	**67,943**	**1,799**	**Yes**
Capital resource limit	**300**	**283**	**17**	**Yes**
Cash requirement	**65,000**	**64,530**	**470**	**Yes**

(Source: Annual Accounts for the year ended 31 March 2015)

A saving of £1.799 million against RRL and £0.017 million against CRL

33. The Board reported a £1.799 million (2.6%) under-spend against its revenue resource limit (RRL). As part of its 2014/15 Local Delivery Plan (LDP), NHS 24 allocated £5 million to a "Future Programme Implementation Reserve" to cover costs associated with the Future Programme development during 2014/15. However, only £3.3 million of this reserve was used in 2014/15; this position was agreed with SGHSCD at the end of January 2015. The vast majority of the overall RRL surplus is therefore due to this planned underspend. SGHSCD has confirmed that NHS 24 can carry forward this surplus into 2015/16.

Efficiency savings target of £1.918 million for 2014/15 has been achieved

34. The achieved efficiency savings of £1.918 million are in line with the target agreed with SGHSCD.

35. The Board achieved £1.224 million of efficiency savings through service productivity (through a 1.5% corporate budget reduction of £0.830 million alongside a reduction in additional hours of frontline staff which saved £0.394 million). A further £0.694 million of efficiency savings have been achieved through asset management strategies.

36. The Board had planned to deliver £1.918 million of recurring efficiency savings. However, the Board delivered £1.787 million of its savings from recurring sources and £0.131 million from non-recurring sources.

37. The table below shows that NHS 24 achieved an underlying recurring financial surplus of £1.799 million, with cash releasing efficiency savings targets achieved.

Table 5: Achievement of 2014/15 surplus

	£m
Recurring income	67.227
Recurring expenditure	60.206
Recurring savings	1.787
Underlying recurring surplus/(deficit)	8.808
Non-recurring income	2.515
Non-recurring expenditure	9.655
Non-recurring savings	0.131
Non-recurring surplus/(deficit)	-7.009
Overall surplus/(deficit)	1.799
Underlying recurring surplus / (deficit) as a percentage of recurring income	13.46%

(Rounded to nearest £0.1m. Source: NHS 24 Finance & FPR for the period ending 31 March 2015)

Capital Resource Limit (CRL)

The Board has achieved a saving of £17,000 against its CRL in 2014/15

38. The Board was allocated an initial capital resource of £0.3 million at the outset of the year. NHS 24 generated a £0.017 million underspend against its Capital Resource Limit of £0.3 million. This is an increase of £0.055 million from prior years' capital spend.

Future financial plans

Delay of Future Programme implementation will lead to additional costs in 2015/16

39. The financial risks include the cost pressures associated with (i) the additional expenditure involved in delivering a new operational system, and (ii) the costs associated with the maintenance of the current system (servicing costs and licence extension). Each month the Future Programme is not operational means the Board incurring approximately £0.45 million in additional core costs. It is currently anticipated that the first phase of the Future Programme will go live by 1 November 2015.

The Board has to repay £20.356 million of brokerage

40. In order to cover the expenditure incurred in the development of the Future Programme, the Board 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). The Board repaid £0.4 million during 2014/15, leaving £20.356 million to repay. The table below shows the repayment plan agreed with the Scottish Government as at 31 March 2015. This has recently been updated as a result of the conclusion of the mediation process. All brokerage is now expected to be repaid by 2019/20, which is two years later than the original business case.

Table 6: Brokerage payment plan with Scottish Government

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening Balance	-	0.320	16.897	20.756	20.356	19.568	15.988	11.654	5.43
Max Brokerage	0.320	16.577	3.859	-	-	-	-	-	-
Repayment	-	-	-	(0.4)	(0.788)	(3.580)	(4.334)	(6.224)	(5.43)
Closing Balance	**0.320**	**16.897**	**20.756**	**20.356**	**19.568**	**15.988**	**11.654**	**5.43**	**-**

(Source: Finance report to the Board in April 2015)

41. The following table sets out a comparison of the brokerage repayment profile between 2014/15 to 2019/20 in relation to the original 2014/15 LDP, the original Future Programme business case and the 2015/16 LDP. This reflects the changing and uncertain nature of issues facing NHS 24.

Table 7: Comparison of currently approved brokerage repayments

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m	£m	£m
Agreed LDP 2014/15	0	3.648	6.434	6.189	4.485	0	20.756
Original (SFLA FBC)	5.275	5.492	5.7	3.689	0	0	20.156
Final agreed LDP 2015/16	0.4	0.788	3.580	4.334	6.224	5.43	20.756

(Source: Finance report to the Board in April 2015)

42. The Board submitted a Local Delivery Plan (LDP) to the SGHSCD covering the financial years 2015/16 to 2019/20. The Board forecasts a break even position in each of the next five years. The core RRL available to the Board is forecast to increase to £70.372 million (an increase of 1.4%) in 2015/16 with a decrease of 8.6% and a slight decrease of 0.01% projected for the subsequent two years respectively. The LDP highlights number of key assumptions and risks on the delivery of the plan, as outlined below.

Table 8: Key assumptions and risks in the 2015-2020 LDP

Key assumption / risk	Risk rating	Potential financial impact
Future Programme - The financial plan assumes that the first phase of the system will go operational by 1 November 2015 with the second phase concluded by 31 March 2016. There are significant additional costs incurred for running the existing systems up until this date. If the implementation is not successful, double running costs will increase during 2015/16.	High risk	The non-recurring costs of the delay in 2015/16 are £13.5 million. This is principally for double running costs, contractor costs, the project team and any other support for the programme.
111 number - NHS 24 is funding this partially from efficiencies generated through workforce redesign and partly through a nonrecurring allocation of £1.5m in 2015/16.	Medium risk	Call volumes are higher than expected since the introduction of 111. NHS 24 will monitor activity closely and assess the impact of this change, including consideration of appropriate further mitigation through workforce and process redesign.
Repayment of brokerage - The 5 year financial plan assumes that NHS 24 will repay brokerage over a 4 year period (with a small repayment in 2014/15 and then over 3 years from 2016/17).	High risk	NHS 24 proposes to repay brokerage of £0.788 million during 2015/16. The brokerage repayment term extends now until 2019/20.

Key assumption / risk	Risk rating	Potential financial impact
No contract savings are included in 2015/16 as a result of the delay to the implementation of the Future Programme. A range of alternative efficiency savings schemes have been identified to mitigate against the impact of this.	Medium risk	A range of revised savings proposals for 2015/16 have been agreed and plans are in place to deliver them during 2015/16.
Achievement of Efficiency Savings plans - Efficiency savings schemes are largely unidentified in years 3, 4 and 5 of the plan.	Medium risk	An efficiency and productivity exercise has commenced across all directorates to work towards meeting the efficiency savings challenge for future years.
Strategic Workforce Plan - There is a risk that the key assumptions with regard to establishment of staffing resource requirement do not prove to be accurate. This could result in financial pressure if additional resource is required. This would be particularly acute should a pandemic flu or similar situation arise.	Medium risk	Risk value dependent on potential unforeseen surge in call demand resulting in additional resource requirement and short term requirements.
There are additional costs predicted in relation to pension reform in future years. This will result in increased employer costs as a result of the introduction of the flat rate national pension arrangement in 2016.	Medium risk	The anticipated increase in costs is £1m per annum from 2016/17 onwards. NHS 24 has factored these additional costs into the efficiency savings requirements for future years.
There is a risk that additional public sector funding may be required from 2015/16 to support the promotion, development and scaling up of the Dallas/Living it Up (LiU) programme.	Medium risk	Work is on-going to determine the level of on-going investment required and the framework and potential commercial and/or public sector involvement in scaling up and embedding this important work. The financial plan assumes an indicative SGHSCD allocation of £0.5m in 2015/16.
SG Funding - There is a risk that funding will not be provided for additional services provided by NHS 24 such as MSK.	Medium risk	The funding stream for MSK has yet to be agreed. NHS 24 has included an assumption that SGHSCD will provide £350,000 funding for this in each year of the plan.

Key assumption / risk	Risk rating	Potential financial impact
Accommodation - The financial plan assumes no additional cost for accommodation over the period of the plan.	Low risk	The Executive Team continues to consider and monitor accommodation requirements for NHS 24.

(Source: NHS 24 2015/16 Local Delivery Plan)

Savings plans

The Board has identified an efficiency savings target of £1.934 million for 2015/16, but additional non-recurring savings of £1.5 million will be required to meet a funding gap due to increased Future Programme post go-live support costs in 2015/16.

43. The business case planned efficiency savings arising from implementing the Future Programme will not now be delivered in 2015/16. As a result, considerable work has been undertaken to develop plans to achieve the savings target from alternative schemes.

44. In addition, NHS 24 previously planned for £10.1 million of implementation costs during 2015/16. However, it has recently emerged that the actual costs may rise from £10.1 million to £13.53 million. £5.303 million of these costs relate to double-running and £8.227 million relate to further implementation costs. The increase in costs of £3.43 million will be funded through the release of previously committed contract expenditure of £1.9 million plus £1.5 million of additional efficiency savings required in 2015/16.

45. The Board has established a Finance and Performance Committee, to oversee progress in achieving 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 Committee met on four occasions during 2014/15.

Financial capacity in public bodies

46. The Auditor General for Scotland and the Accounts Commission are interested in the impact reductions in staff numbers are having on back-office functions and particularly finance. As part of the 2014/15 audit we have collected baseline information on the finance department. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

47. A summary of our findings are highlighted below;

Table 9: Key findings on financial capacity at NHS 24

Theme	Audit Findings
Financial Capacity	The Director of Finance (DoF) exercises effective financial management over the organisation through her position as the chief financial officer and through attendance at meetings, including the Executive Team (ET), Audit & Risk Committee, Finance & Performance Committee and the Board. The DoF is an executive board member. She is supported in this role by 14 dedicated finance team members,

Theme	Audit Findings
	five of which are professionally qualified. We did however note the following: • The Board does not currently have a formal succession plan in place for finance staff; there are therefore risks to the continuity of the finance service in the event of staff turnover. ***Action plan point 3***
Financial strategy and sustainability	The Board reviews a rolling five-year financial plan on an annual basis as part of preparation of the Local Delivery Plan. The Plan details the high level revenue and expenditure for the Board for the next five years, including projected efficiency saving targets. The Plan details the main risks to delivery of projected costs, with specific focus on workforce planning and information technology costs. The Plan is supported by a financial plan, which provides details of projected expenditure and commitments by cost centre.
Budget monitoring and control	The Board has controls in place to ensure that spend against its revenue budget is monitored throughout the year. The Board's standing orders, standing financial instructions and financial procedures provide an established framework for officers to follow. Budget monitoring reports are presented to the Executive Team and the Board. These include explanations of significant variances between the actual and budgeted position for the year-to-date. Each cost centre has a nominated budget holder who receives a monthly budget report. Each budget holder also has a monthly meeting with a management accountant to discuss budgetary performance. These arrangements allow for oversight of the financial position of the Board.

Performance management

48. NHS 24 has an established and generally effective core performance management framework in place. Directorates provide comprehensive performance information to the executive team and Board 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) standards and local service performance targets are included in NHS 24's performance management reports.

HEAT and performance targets

NHS 24 has achieved 18 of 18 HEAT targets, as at the end of March 2015

49. As at 31 March 2015, NHS 24 met all HEAT targets. NHS 24 also achieved one of the two Internal Standards and achieved all nine Quality Strategy measures. The details are summarised below.

Table 10: Actual performance against HEAT targets, Internal Standards and Quality Strategy Measures

	LDP – Core Targets		Internal Standards		Quality Strategy measures	
	Total	On-target	Total	On-target	Total	On-target
Health	2	2	-	-	-	-
Efficiency	3	3	2	1	-	-
Access	11	11	-	-	-	-
Treatment	2	2	-	-	-	-
Safe	-	-	-	-	6	6
Effective	-	-	-	-	3	3

(Source: Corporate Performance Report to the Board in April 2015)

All service monitoring targets were achieved for each month of 2014/15 apart from KPI 1 during December 2014 and February 2015

50. Further to the core HEAT and local performance targets and standards, NHS 24 reviews its performance against operational targets. The targets are reviewed every month, with reports being presented at each Board meeting. 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.

51. NHS 24 has three service delivery key performance indicators:

- KPI 1: Call handlers to answer 90% of calls within 30 seconds
- KPI 2: To commence 90% of GP priority calls within 20 minutes
- KPI 3: To commence 90% of GP routine calls within 60 minutes

52. NHS 24 achieved each of these KPIs each month during 2014/15 apart from KPI 1 (Call handlers to answer 90% of calls from patients within 30 seconds), which was marginally missed during December 2014 and February 2015. Actual performance was 0.2% and 2.8% below the 90% target respectively. The table below sets out NHS 24's monthly performance during 2014/15 against these KPIs.

Table 11: 2014/15 actual performance against service KPIs

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	Actual performance (%)											
KPI 1	96.5	93.9	93.4	93.3	95.9	93.3	93.1	90.3	89.8	93.0	87.2	95.2
KPI 2	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.8	99.9	99.9	99.9	99.9
KPI 3	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9

(Source: Service Performance Reports to the Board during 2014/15)

111 number

NHS 24 officially launched the free '111' number during 2014/15

53. On 29 April 2014, NHS 24 officially launched the free 111 telephone number. This was introduced as a result of patient feedback, which suggested that the old number was difficult to remember and patients were often unsure how much their call would cost.

54. NHS 24 used data from the launch of the equivalent free to call number in NHS England and the equivalent 101 number for Police Scotland to forecast an increase of 10% in call volumes to the new 111 service. This led to additional call handlers being recruited to reflect the anticipated increased activity.

55. During 2014/15, NHS 24 experienced a like-for-like increase of between 15% and 20% in unscheduled care call activity from 2013/14. As noted from the table above, this has not ultimately adversely impacted on NHS 24's ability to meet its service KPIs, apart from KPI 1 in December 2014 and February 2015.

Future Programme

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

Background

57. 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 aimed at redesigning the way in which the service is supported by clinical staff.

58. The technology was procured in 2011 in two Lots - Lot 1 bid related to the development and delivery of appropriate clinical and patient handling applications including a 10 year contract for post go-live support and Lot 2 bid related to the supply and implementation of hardware and underlying infrastructure needed to support the applications delivered in Lot 1 again including a 10 year contract for post go-live support.

59. Capgemini was appointed to deliver the applications under Lot 1. As a result of a variant-bid the contract for Lot 2 was altered and BT was awarded "prime contractor" status in relation to the "post go-live" arrangements as well as responsibility for delivery of the specified hardware and infrastructure. This change required BT to enter into a "back to back" contractual arrangement with Capgemini to enable them to deliver the "post go live" support required by NHS 24 and changed the original Lot 1 specification to deliver application build only.

60. Over the past two years several attempts have been made to implement the new system but without success. Despite the failure to go live, a significant investment has been made in the Programme and further investment made in ensuring that current systems remain capable of providing a safe and reliable service to the public.

61. As part of our annual audit over the past two years, we have undertaken detailed reviews of the Programme providing comments and recommendations. During the 2014/15 annual audit we have reviewed available documentation and met with members of the implementation team including representatives from both Capgemini and BT. The purpose of the following sections is to provide an update on events since June 2014 and to provide comments on the status of the Programme and potential future risks.

Future Programme – Update of events

62. The planned implementation of the new system in October 2013 was aborted as a result of the application failing to meet the performance and stability criteria understood by NHS 24 to be specified in the Lot 1 contract. However, these criteria were subsequently disputed by Capgemini due to flaws discovered within the signed contract documentation. As a result a Declaration and Rectification action was raised by NHS 24 to address these issues in March 2014 and that action continued until June 2015 when, as part of the mediation settlement referred to below, the legal dispute between the parties was formally brought to a conclusion.

63. Following the unsuccessful attempt to implement the system in October 2013, and several high level discussions between the contract partners, a further version of the application was subject to a six week technical evaluation in April and May 2014. As a result of this evaluation, at its May 2014 meeting the Board of NHS 24 concluded that the application was not delivering a satisfactory and safe solution for the specified requirements.

64. As a consequence a Default Notice was served on Capgemini in June 2014 requiring action to rectify the position within 20 days based on the failure of the system to satisfactorily operate for 600 concurrent users. The outcome of issuing the Default Notice could have led to the termination by NHS 24 of the contract. However, in parallel, a Commercial Strategy was also approved by the Board in May 2014 which highlighted major concerns that terminating the contract and ending Capgemini's involvement may jeopardise the embedded value of much of the investment which had already been made. An urgent Risk Assessment was therefore undertaken by the Future Programme Director who was appointed in June 2014. Her conclusion, which was presented to a meeting of the Board in July 2014, was that there was a requirement to undertake further diagnostic work to identify an appropriate way forward. The Board approved this proposal and agreed that the diagnostic work should be undertaken immediately.

65. Capgemini welcomed this approach and, following discussion, they agreed that the disputes in relation to the cost of past implementation work and double running costs should be considered as part of an entirely independent mediation process.

66. The further diagnostic work undertaken identified and provided solutions to the two emergent primary technical issues relating to stability/resilience and performance. As a result, the Board agreed at its meeting in November 2014 that the solution was viable and that implementation planning should be undertaken immediately. A high level implementation plan was devised and approved by the Board at its February meeting with phase 1 planned to be operational by 1 November 2016 and phase 2 by 31 March 2016.

67. At the November 2014 Board meeting the Future Programme Director identified that the Board needed to recognise and address its role as Systems Integrator. This role demanded a significantly more robust engagement with the system suppliers resulting in the need for a highly experienced Programme Management team, including a Technical Lead and Testing Manager. This team was quickly assembled and mobilised so that, with the support of NHS National Services Scotland (NSS), by February 2015 a Programme Management Office (PMO) had been established within Capgemini's offices in Glasgow.

68. In addition, the Future Programme Director also highlighted at the November 2014 meeting the requirement to more systematically engage NSS as its strategic technical partner to ensure the availability of expert IT advice, procurement, contractual and negotiating skills and capacity through the implementation process.

69. This co-location of resources has allowed for much greater collaboration over the past few months with weekly joint executive team meetings chaired by the Future Programme Director to review and resolve any issues or risks which could impact the critical path.

70. The detailed implementation plan sought to address a number of issues which were highlighted in a series of lessons learned workshops held with Capgemini and BT in December 2014 and January 2015. Actions arising from this review included:

- The preparation of a complete set of blueprint documents to clarify the detailed requirements to be delivered.

- An exercise to refresh the underlying technology which had been implemented during previous implementation attempts.
- A need to address concerns in relation to the "Post Go-Live" contract arrangements.
- The need to review up-front all aspects of the plan including later work stages to highlight immediate actions required to address potential issues and risks.

Governance and risk management

71. In addition to establishing the PMO, the Future Programme Director has also established a strong risk management framework through which any risks or issues are readily identified and addressed. This approach, in conjunction with regular executive team and board reporting, has ensured appropriate governance has been applied to key decisions required to support the ongoing implementation.

72. As a result of this revised risk management approach NHS 24 has been able to successfully identify and manage a range of critical matters the most important of which was the post go-live support arrangements.

Post Go-Live Support Arrangements

73. As part of the implementation planning process, BT highlighted the need to re-assess the support arrangements for the post go-live period when it would become responsible for the delivery of application support. The consequent scoping work highlighted that this had been an outstanding unresolved issue which pre-dated the original planned go-live date of October 2013 but has only recently been highlighted to the Board. The reasons why this issue has not been highlighted before is being fully investigated.

74. As a result of the lack of clarity over the post go-live support arrangements a detailed specification has now been developed between all parties which will deliver the operational support needed by NHS 24 but will also result in additional costs. The detailed contractual arrangements are continuing to be finalised with completion expected by the end of August.

75. Given the scale and complexity of the Programme, there remain significant risks to a successful implementation. It is worth noting that one of the highest risks currently highlighted within the Risk Register is the lack of any contingency within the current implementation timescales. This reinforces the need for all concerned to maintain the risk management controls over the coming weeks as testing and user engagement are completed, as there is very little scope for corrective action to be taken and to achieve the implementation date.

76. The project is currently on track and all parties are focussed on a successful implementation of the phase 1 functionality by 1 November 2015.

Mediation process

77. On 4 June 2015, NHS 24 and Capgemini agreed to dismiss their legal dispute following mediation. The mediation process was concluded with a binding settlement agreement. As part of the mediation process it was agreed that the Action in relation to Declarator / Rectification would be dismissed with no expense due to or by either party.

Significant financial impact

78. There are significant additional costs to complete the implementation of the Future Programme in 2015/16. The implementation will be phased and will involve additional cost in the following areas :

- double running;
- contractor and in-house team;
- training;
- accommodation and travel; and
- legal.

79. The financial plan for 2015/16 includes an estimate of the implementation costs in-year. These costs have also been included within the 2015/16 Local Delivery Plan (LDP) covering the next five years.

80. The total cost of the Future Programme over the original SFLA business case has increased from the £75.8 million included in the original business case to £117.4 million (see table below). This significant increase has been caused by additional implementation costs (as set out above) and an increase in recurring post go-live costs of circa £14.3 million. These latter increases have arisen because of the gaps identified in the level of required on-going application support (see paragraphs 73 and 74 in particular). This area is subject to further investigation, to identify exactly why this has arisen at such a late stage.

Table 12: Comparison of current forecast against Future Programme original business case

	Original Full Business Case £ million	Current Forecast £ million	Forecast Overspend £ million
Implementation costs (including double running costs)	29.6	56.9	27.3
Post go-live, 10 year contract costs	46.2	60.5	14.3
Total	**75.8**	**117.4**	**41.6**

81. The mediation proceedings with Capgemini have been successfully concluded allowing NHS 24 to clarify the financial impact of the Future Programme and cease any court action against Capgemini.

Benefits realisation

82. Our annual audit report last year recommended the preparation of a revised Business Case to support the continuation of the Programme. The Director of Finance had prepared a Commercial Strategy which included detailed financial and operational analysis to support the continued investment in the programme which focussed on protecting the significant investment already made. This Strategy was approved by the Board in May 2014. In consultation with the Director of Finance in May 2015, it was agreed that efforts should now be focused on a robust Benefits Realisation Plan being developed to demonstrate how the significant investment in the Programme can be recovered through the delivery of efficiencies and additional services.

83. Given the scale of the investment now made, and the capabilities of the new technology to deliver wider services, the creation of a Benefit Realisation Plan should allow NHS 24 to consider the potential of the new systems to deliver wider national service benefits as part of a broader strategic review of NHS 24 services.

Lessons learned

84. There have been a number of occasions over the past 2 years when reviews have been undertaken to consider how experience from the previous years could be used to ensure success for the latest implementation attempt. Most notable among these occasions have been:

- A Gateway Review undertaken by the Scottish Government in July 2013 which commended the Programme "as a particularly strong exemplar of good practice" but highlighted the risks associated with such a complex and ambitious project. The review made 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.
- An independent review jointly commissioned by NHS 24 and the Scottish Government which reported in March 2014.
- A review undertaken at the request of the current Future Programme Director, with Capgemini and BT as part of the forward planning process.
- An independent review, at the request of the NHS 24 Chairman, to consider the procurement and contractual arrangements which sought to highlight lessons to be learned for the future and in relation to any disciplinary proceedings.
- A review undertaken at the request of the current Future Programme Director, by PWC as the Board's internal auditor. This sought to confirm that actions raised in relation to the Future Programme across various reports (i.e. external audit, internal audit, Scottish Government, and external consultants) had been implemented in line with the agreed timescales. This review was undertaken during August and September 2014. The review found that of the 60 recommendations raised, 39 (66%) had been completed, five (8%) were ongoing, and 16 (27%) were open. The 16 open actions were spread across the majority of reviews and the five ongoing actions related to the Scottish Government Tailored Programme Support review and the PwC Key Stage Review (2). The number and breadth of issues demonstrates the significant problems arising from the Future Programme.

85. In reviewing the Future Programme over time we have identified historic weaknesses in a number of critical areas including:

- Flawed procurement and contract preparation further undermined by unrealistic timescales and poor contract management.
- Poor programme definition combined with on-going and significant changes to scope and functionality leading to increased development costs.
- The use of a team whose experience was not aligned to the management and delivery of such a large and complex contract.
- Over-reliance on suppliers for the testing and evaluation of technical aspects of the contract.
- Governance and escalation processes relevant to the current implementation not working fully to allow early identification of issues by the Board.

86. While many of these issues have now been addressed, this programme has key lessons to be learned for the benefit of both NHS 24 and the wider public sector. We would therefore recommend that, at an appropriate point in the implementation timetable, a comprehensive lessons learned exercise is undertaken covering all aspects of the Programme including:

- Programme definition and approval;
- Programme Management including roles and responsibilities, resourcing and the experience and qualifications of those involved;
- Procurement processes including support received;
- Technical evaluation and management;
- Overall governance and risk management; and
- Financial controls and reporting.

Governance

88. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the Accountable Officer, the Board is responsible for ensuring the proper conduct of its 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 appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- 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. In terms of maintaining the overall governance arrangements of the Board, it is important to note that on 2 July 2015, the Chair of NHS 24 announced that the Chief Executive tendered his resignation and will leave the organisation on 31 July 2015. The Chair is in consultation with the NHS 24 Board and the Scottish Government Health and Social Care Directorate to agree arrangements to cover this departure and will confirm plans in due course.

91. 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. SCTT and information governance have also been identified as areas requiring particular improvement.

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 in its 2014/15 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. The Board is now the prime governance body responsible for the Future Programme and is now receiving on a monthly basis a comprehensive Future Programme update which is aligned to the Director of Finance’s monthly financial reporting.

Governance Statement – SCTT and information governance issues disclosed

93. The Board has also made disclosures in its 2014/15 Governance Statement in relation to SCTT and information governance. The Head of Internal Audit’s opinion for 2014/15 made particular reference to:

- The Scottish Centre for Telehealth and Telecare, where internal audit raised important issues in relation to NHS 24's governance over the direction, performance and approval process for SCTT. As a result an action plan was put in place to respond to these issues.
- Information Governance, where internal audit raised significant issues in relation to governance overview, and access and security for corporate folders.

94. These issues were reported to the NHS 24 Audit & Risk Committee in June 2015, and actions will be prepared to address the issues identified.

Systems of internal control

95. In line with International Standards on Auditing (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 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, although significant financial issues have arisen and continue to be experienced in relation to the strategic NHS 24 Future Programme. Internal audit has also identified issues with SCTT and information governance (as noted above). These issues are related to the wider internal control framework.

Internal audit

96. 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 service and concluded it 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.

97. The internal audit plan for 2014/15 was delivered in line with the original plan although additional key reviews (including the SCTT review) were undertaken as part of the contingency days identified in the plan and were issued very close to the year-end Audit & Risk Committee. The Audit & Risk Committee is aware of this and has taken these factors into account when considering the 2014/15 annual accounts and Governance Statement.

98. The internal auditor issued an "improvement required" overall opinion for 2014/15, with particular reference to SCTT, information governance and the section 22 report. The internal auditor's opinion was that *"there are weaknesses in the framework of governance, risk management and control which potentially put the achievement of organisational objectives at risk".*

Risk management

99. 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.

100. 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.

101. The Executive Team is responsible for overseeing the identification and monitoring of risks, providing quarterly updates to the Board. The Audit and Risk Committee also include risk as a standing agenda item. An Operational Risk Management Group is in place for sharing risk information across the Board, reporting to the Executive Team.

102. The Board has a Corporate Risk Register and Directorate-level registers. All risks are allocated to a 'risk lead', and review dates are documented. In addition, each risk has been assigned to the relevant governance committee. At each governance committee meeting, members are provided with an update on the risks for their committee in order to provide assurance that the risks are being effectively managed and mitigated.

103. Overall, we found the Board's risk management arrangements to be generally adequate.

Prevention and detection of fraud and irregularity

104. In accordance with the Code of Audit Practice, we have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. 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

105. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies and external auditors to identify fraud and error. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

106. The 2012/13 NFI exercise identified 225 data matches in total, of which 10 were recommended for investigation. One of these investigations has resulted in a court case. An intermediate hearing was held on 25 February 2015 which resulted in an adjournment of the trial until 10 August 2015, with a new intermediate hearing on 14 July 2015.

107. We have concluded that the Board's arrangements for the 2014/15 NFI exercise have been adequate. The required data was submitted on time. The Board received 286 data matches in total, of which 39 were recommended for investigation. The Board has investigated 21% of these matches to date with no instances of fraud detected.

Table 13: Data from NFI exercises

NFI exercise	Total matches identified	Recommended matches	Errors/ fraud identified
2012/13	225	10	One potential
2014/15	286	39	None

(Sources: NFI website and External Audit Annual Report 2012/13 to the Board and the Auditor General for Scotland)

108. The investigation of data matches is led by the Corporate Accountant and the results of the investigations will be reported as part of the regular fraud updates to the Audit & Risk Committee.

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

109. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate 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 - Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the financial statements

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

In preparing the financial statements, Board members and the Chief Executive, as Accountable Officer are required to:

- observe the financial statements direction issued by Scottish Ministers, including the relevent accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have been followed and disclose and explain any material departures; and
- prepare the financial statements on a going concern basis.

Board members are also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Mininsters of the state of the board's affairs as at 31 March 2015 and of its net operating cost for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Minister;
- expenditure and income in the financial statements was incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Mininster;
- 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 Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from Scottish Ministers; or
- there has been a failure to achieve a prescribed financial objective.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

Our main responsibilities under the Code of Audit Practice, in respect of best value, use of resources, performance and corporate governance can be summarised follows:

Best value, use of resources and performance

- To review the Commission's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources .

Corporate governance

- To review and report on the Commission's corporate governance arrangements as they relate to:
    - its review of its systems of internal control, including its reporting arrangements
    - the prevention and detection of fraud and irregularity
    - standards of conduct and prevention and detection of corruption
    - the Commission's financial position

Independence

International Standard on Auditing (UK & Ireland) 260, "communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we have complied with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is 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 Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2 - Action plan

Our action plan details the control weakness that we have identified during the course of our audit. The action plan details the officers responsible for implementing the recommendation and the implementation date.

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. Our communication of these matters does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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.	**SFIs**	NHS 24 has Standing Financial Instructions (SFIs). The SFIs provide guidance on various aspects of financial management. The SFIs were due to be reviewed and updated by March 2015. However, we were informed that this has not taken place as planned due to a wider review of the Corporate Governance Manual (of which the SFIs are part).	There is a risk that the SFIs are not aligned with current working practices. This could lead to incorrect application of the SFIs. We recommend the SFIs are reviewed and updated as soon as practical. **Grade 1**	The SFIs have been reviewed and suggested amendments have been proposed. These will be approved as part of the wider Corporate Governance review. **Responsible officer:** Deputy Director of Finance **Implementation date:** August 2015
2.	**Prepayments**	NHS 24 has purchased three different license support services from a supplier. The services total £0.242 million. NHS 24 has recognised a prepayment based on services being provided between 15 December 2014 and 14 December 2015. This is despite one of the three relevant services being fully consumed by 31 March 2015. NHS 24 has adopted this approach because the invoice does not attribute individual values to each of the three services.	The prepayment has not been accurately calculated. Whilst this will not lead to a material misstatement, NHS 24 should engage with the supplier to obtain a breakdown of the costs attributable to each of the three services in order to calculate accurate prepayments and accruals going forward. **Grade 2**	The supplier will be asked again for a breakdown of the costs. **Responsible officer:** Deputy Director of Finance **Implementation date:** September 2015

No	Title	Issue identified	Risk and recommendation	Management comments
3.	**Succession planning**	The Board does not currently have a formal succession plan in place for finance staff.	There are therefore risks to continuity of the finance service in light of staff turnover. NHS 24 should develop documented succession plans which look to mitigate the risks arising as a result of finance staff turnover. **Grade 3**	Agreed **Responsible officer:** Director of Finance **Implementation date:** March 2016

Appendix 3 - Outstanding recommendations from 2013/14

No				
4.	**Follow up of prior recommendations – Financial controls**	Certain issues raised in prior periods have still to be fully addressed, particularly in relation to journal entry backup/explanation, in compliance with the NHS 24 Financial Operating Procedures.	NHS 24 management should continue to seek implementation of these issues, as far as possible, to support sound internal control. **Grade 2**	Staff will be reminded again about the importance of including explanations to support journal entries. **Responsible officer:** Deputy Director of Finance **Implementation date:** June 2015
5.	**Follow up of prior recommendations – Future Programme**	A Future Programme Benefits Realisation Strategy should be drafted to ensure the full benefits from the improved system and functionality is recognised.	NHS 24 management should ensure a Benefits Realisation Strategy is in place. **Grade 4**	The Director of Finance is leading the Benefits Realisation Strategy work. An initial report on the framework for this strategy will be reported in September 2015 with a final report submitted to the Board in December 2015. **Responsible officer:** Director of Finance and Future Programme Director **Implementation date:** December 2015