



# **NHS National Services Scotland**

Annual audit report for the  
Board of NHS National  
Services Scotland and the  
Auditor General for  
Scotland

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.  
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Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Auditor General has appointed Fiona Mitchell-Knight as the external auditor of NHS National Services Scotland for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS National Services Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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 Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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# Contents

Key messages.....	4	Best Value.....	23
Introduction.....	6	Appendix I – Significant audit risks .....	27
Audit of the 2014/15 financial statements .....	7	Appendix II - Summary of local audit reports.....	31
Financial management and sustainability.....	12	Appendix III - Summary of national audit reports .....	32
Governance and transparency.....	18	Appendix IV - Action plan .....	33

# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>• Unqualified independent auditor's report on the 2014/15 financial statements.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>• All financial targets in 2014/15 were met.</li><li>• A surplus of £0.236 million was achieved against total Revenue Resource Limit.</li><li>• Total savings of £12.485 million achieved.</li><li>• NHS NSS has strong financial management arrangements that support review and scrutiny of financial performance and the achievement of financial targets.</li><li>• NHS NSS faces a number of risks in delivering its five year financial plan, financial sustainability under the current funding model is more challenging than in previous years.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• NHS NSS has sound and well established governance arrangements in place.</li><li>• Overall, systems of internal control operated effectively during 2014/15.</li><li>• NHS NSS has an effective internal audit function and robust anti-fraud arrangements.</li></ul>

 <p>Best Value</p>	<ul style="list-style-type: none"><li>• NHS NSS has a well developed performance management framework in place.</li><li>• NHS NSS is playing a leading role in further developing shared services across the public sector</li><li>• NHS NSS performed well against the relevant HEAT standards and other SGHSCD targets.</li></ul>
 <p>Outlook</p>	<p>The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less at the same time as supporting major changes to service delivery such as the Scottish Government's 2020 Vision and health and social care integration. Maintaining sustainability in NHS Scotland will require innovation to design and deliver services to citizens. NHS NSS has a significant role to play in further developing shared services across the public sector.</p>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS NSS. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of NHS NSS, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of 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 should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>We have completed our audit and issued an unqualified opinion that the financial statements of NHS NSS for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.</li> </ul>
<p><b>Regularity of income and expenditure</b></p>	<ul style="list-style-type: none"> <li>In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.</li> </ul>
<p><b>Consolidation template</b></p>	<ul style="list-style-type: none"> <li>The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015.</li> </ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 6 May 2015. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
10. The accounts are of a good standard and are consistent with the good practice note issued by Audit Scotland in its publication 'Improving the quality of NHS annual report and accounts (December 2014)'.

## Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 26 March 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. 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 audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS NSS we set our planning materiality for 2014/15 at £6.5 million (1% of gross



expenditure). Performance materiality was calculated at £3.2 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

19. Although not material to the financial statements as a whole we would have, for your information, reported any uncorrected misstatements greater than £100,000 identified during the audit. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements. A number of presentational and other smaller monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements where appropriate. The overall effect of the monetary adjustments was neutral and had no effect on the year's results.
20. One significant adjustment was required to the balance sheet. Capital expenditure had been correctly stated as £10.220 million in the financial statements, however, £4.350 million in respect of the

construction costs of the new SNBTS facility had not been included in the balance sheet as assets under construction. The omission was corrected although the effect on the balance sheet is neutral as both assets and liabilities have been increased by the amount of £4.350 million.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
22. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

## Significant findings from the audit

Issue	Resolution
<p><b>Accounting treatment of Scottish Wide Area network (SWAN) contract:</b> Over recent years accounting standards have required that assets used to deliver dedicated services be recognised on the balance sheet of the organisation letting the contract. The SWAN contract was commissioned by NHS NSS as part of its remit to provide shared services to the Scottish public sector.</p> <p>We reviewed the proposed accounting treatment for the SWAN contract to ensure that it was consistent with current relevant accounting standards/guidance. We also reviewed the draft report on the consideration of the accounting treatment prepared by Deloitte.</p>	<p>Following discussions on our initial view, NHS NSS provided further information and explanations. In particular information was provided on the nature of the assets being used by the contractor to operate the SWAN network, including a copy of the contractor’s asset register. In our opinion this information was crucial to assess the accounting treatment and had not previously been available. We concluded that the asset register and supporting explanations supported the case that the assets were properly excluded from the balance sheet of NHS NSS and that the proposed accounting treatment was appropriate.</p>
<p><b>Clinical negligence and Other Risks Indemnity Scheme (CNORIS) provision:</b> Following an Audit Scotland review of consolidated accounting for CNORIS at Scottish Government level, guidance was issued to NHS boards confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with <i>International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>A CNORIS provision of £0.153 million was included in the 2014/15 accounts representing the Board’s share of the total liability of NHS Scotland as at 31 March 2015. The Board correctly processed opening balance and retrospective adjustments in line with International Accounting Standard 8 and as advised by the Scottish Government.</p>

## Future accounting and auditing developments

### Revisions to the financial reporting manual

23. The financial statements of the Board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement.
  - Restructuring the annual report.
24. **IFRS 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The Board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
25. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of the Board's performance and will

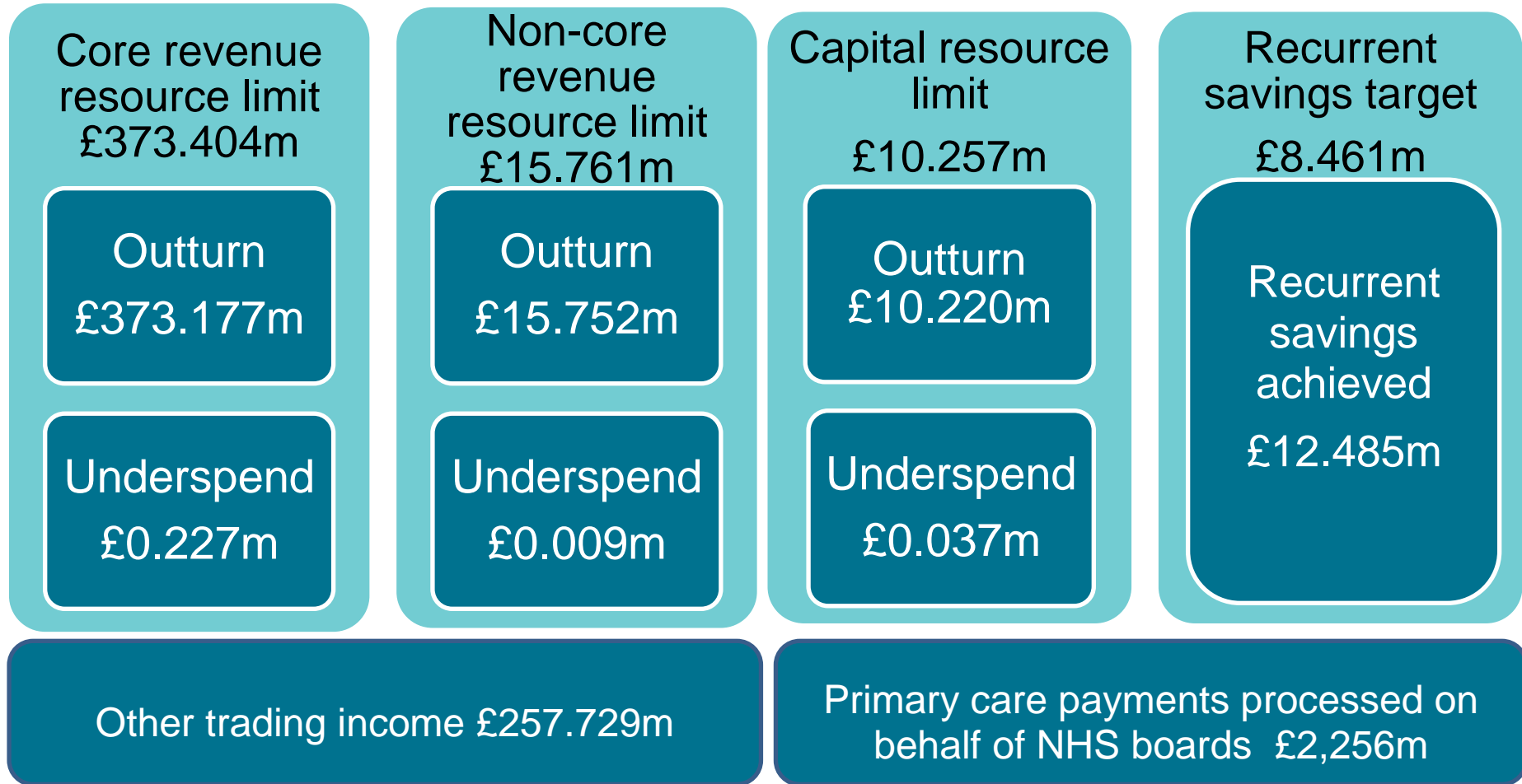
include an overview section and a performance analysis section.

- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

### Health and Social Care Integration

26. Integrated Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.

# Financial management and sustainability



## Financial management

27. In this section we comment on NHS NSS financial outcomes and assess the Board's financial management arrangements. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.
28. Funding of NHS NSS is agreed with the Scottish Government Health and Social Care Directorates (SGHSCD). It is a statutory requirement that the Board ensures expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD.
29. The Board's final RRL (£389.165 million) and CRL (£10.257 million) were agreed with the SGHSCD on 24 April 2015.

## Financial outcomes

30. The Board achieved its financial targets in 2014/15 and delivered total efficiency savings of £12.485 million against targeted efficiencies of £8.461 million.
31. The Board had budgeted to break-even against its Revenue Resource Limit in 2014/15. The actual outturn position was a surplus of £0.236 million.

## Capital expenditure 2014/15

The Board remained within its Capital Resource Limit (£10.257 million). Capital expenditure was in line with the planned capital programme. It concentrated on the construction on the new

SNBTS facility; the continuing three year programme to upgrade static and mobile breast screening units from analogue to digital; the rolling replacement equipment programme; and IT infrastructure.

## Financial management arrangements

32. As public sector auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the chief finance officer has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
33. We reviewed the Board's standing financial instructions and standing orders, which are updated annually, and concluded that they are comprehensive and current.
34. Financial monitoring activity includes the preparation of monthly monitoring reports which are considered by the Executive Management Team (EMT) and subsequently submitted to

scheduled Board meetings for members' consideration. These reports include forecasts of year end outturn position, including reasons for over/underspends across the business units.

35. The reports do not cover future cost pressures or opportunities. These are analysed during the annual resource allocation meetings (RAMs) and are reported and reviewed as part of the local delivery plan LDP annual update.
36. Each strategic business unit (SBU) is challenged on its resource allocations for the coming year, and an overview of the overall business opportunities and threats for the year is included as a SWOT analysis for each business unit to include in their approach for the year.
37. An overall analysis is prepared detailing potential business growth areas, customer needs, major competitors, areas for research and development and areas where changes to investment levels are needed over the coming year.
38. Whilst the LDP only formally sets targets for each year including financial goals, NHS NSS plans on a five-year basis and the LDP targets are seen as 'milestones' within the longer plan with the LDP 'rolling forward' each year.
39. Financial planning assumptions including cost pressures are also included for the five year period and a projection of the outturn surplus/deficit position in each of the financial years of the plan. The documents are reviewed by the Executive Management Team, Board and Performance and Finance Committee.

40. During the year, as part of our governance work, we undertook a review of budgetary control and reported our finding in our internal controls report. We concluded that overall the Board has an effective process of budgetary control.

## Conclusion on financial management

41. We have concluded that the Board has strong financial management arrangements that support review and scrutiny of financial performance and the achievement of financial targets.

## Financial sustainability

42. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future needs of its stakeholders. In assessing financial sustainability we are concerned with the Board's financial planning, financial performance, capital programmes and workforce management.

## Financial planning

43. The Board's LDP for 2015/20 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 £1.500 million in 2015/16. Further recurring savings of some £9 million are factored in for each year of the plan.
44. The plan recognises the significant cost pressures facing the Board going forward notably staff pay costs and rising pension costs.

Achievement of financial balance is largely dependent on the successful delivery of an ambitious efficiency savings programme and increased income from other public sector bodies, principally health boards. Income from other public bodies has grown by over 50% in the last five years. Over the life of the current five year plan it is expected that income from this source will rise by a further 6.5% to £271 million.

45. The Board recognises that the level of risk associated with the plan is higher than in previous years. Three risks rated as “high” 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.
  - In respect of the ePharmacy project there is a requirement to find additional funding to meet expectations otherwise the level of developments will need to be reduced.
  - The financial consequence of the proposed national shared services work has not been included in the financial plan. The funding requirement to take this forward would be subject to agreement with the Scottish Government.
46. A further four risks, rated as “medium”, have also been identified. These are:
- 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.

- Future years’ funding remains indicative, until confirmation of actual funding is received from the Scottish Government there remains a level of uncertainty.
- The Board’s flexibility to respond to unplanned emergencies is degraded as a result of the reduction in funding the level and consequent reduced service resilience.

## Workforce Management

47. Workforce planning is integral to the Board’s strategic planning process and is a key element of the Local Delivery Plan. NHS NSS has a 'rolling' workforce plan covering a five year period, with the aim of ensuring the right people with the right skills are working in the appropriate areas of the organisation to allow NHS NSS to deliver its outcomes in support of the Scottish Governments 2020 Vision.
48. The workforce plan projections plan show an initial increase of 142 WTE followed by a reduction of 50 to a WTE workforce of around 3,500 for the years 2018/21. The plan focuses on the current and future capability of the organisation and follows business need assessments prepared by SBUs.
49. The 2014/15 financial statements include £0.419 million of costs relating to five 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.

50. During 2014/15 the Board incurred £5.531 million (2013/14 £3.878 million; 2012/13 £2.565 million) costs in relation to agency staff, representing 4.2% of payroll costs (2013/14 3.1%; 2012/13 2.1%). 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. The Board have confirmed that they are well sighted on these costs and the resourcing position is under continuous review.
51. The HEAT standard is for NHS Boards to achieve a sickness absence rate of 4.0%. In 2014/15 NHS NSS sickness absence was 3.8%, this is consistent with previous years and compares well with the Scottish average at 31 March 2015 of 5.15%.

### Cost of pension provision

52. The Public Service Pensions Act 2013 reforms the NHS Superannuation Scheme from April 2015. Key changes are the introduction of a career average basis of calculation of pension entitlement and the introduction of an employer contribution cap designed to limit future employer contribution increases.

53. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary as at 31 March 2012. The new rate of employer contribution from 1 April 2015 is 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.
54. The impact on NHS NSS employee costs is estimated at £1.400 million per annum over the next four financial years. The increase has been reflected in the Board's forward financial plans.
55. A cost cap mechanism is to be used on future calculations to ensure that the cost to employers remains affordable and sustainable in the long term. The employer contribution cost cap for the NHS pension scheme, to apply from 1 April 2019, is 11.5% of pensionable pay.

### Conclusion on financial sustainability

56. 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 five year financial plan, financial sustainability under the current funding model is more challenging than in previous years.

### Outlook

57. The Board is predicting a balanced budget position in each of the years from 2015/16 to 2019/20. However, this is dependent on the continuing delivery of efficiency savings each year to compensate

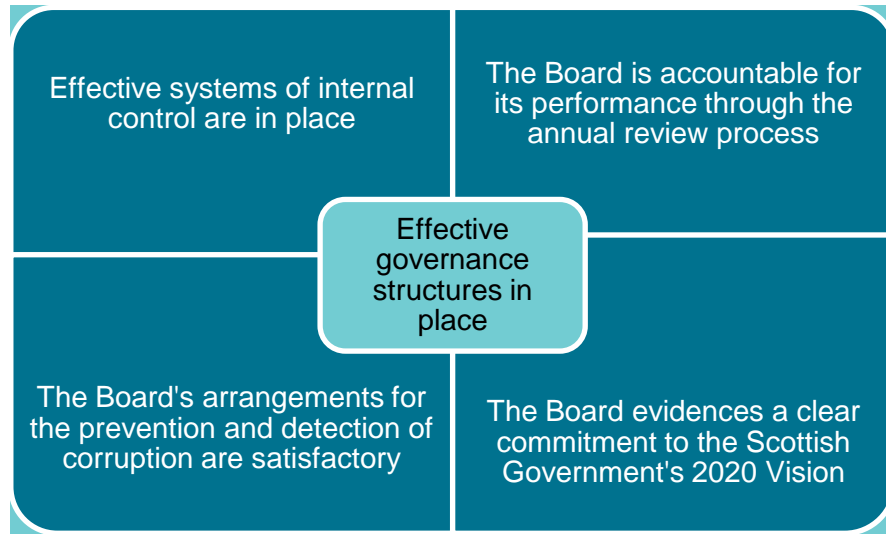


for the gap between available funding from current sources and the cost of services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

58. The Board is also faced with significant challenges arising from increases to its cost base. From 2015/16 pension reform will

increase employer contribution rates resulting in additional £1.400 million to be funded by the Board on a recurring basis. Changes to the national insurance scheme take effect from 2016/17. The estimated cost to NHS NSS of the switch from the National Insurance contracted out rate to the National Insurance standard rate on 1st April 2016 is £2.000 million per annum.

# Governance and transparency



- 59. 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 of these arrangements.
- 60. The Board is responsible for the strategic leadership and governance of NHS NSS. It is supported in this role by a number of standing committees with formally delegated remits. Figure 1.

Figure 1: NHS NSS standing committees



Source: NHS NSS organisational structure

- 61. The standing committees meet on a regular basis throughout the year to consider relevant matters. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

62. The public should be able to hold the Board to account for the services it provides. Transparency means that the public has access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.
63. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and health boards. The annual review for NHS NSS is scheduled to be held on the 26 June 2015 and will be attended by the Chief Executive, a Scottish Government Official and a Board team led by the Chair. There will be an open session where members of the public can attend to ask questions of the Chief Executive and the Board.
64. Members of the public can also attend meetings of the Board although meetings of standing committees are not held in public session.
65. A significant amount of the Board's business is transacted through sub-committees. While minutes of the committees are available in Board papers available on the website, committee papers are not available on the website. The Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.
66. In an effort to make information as accessible as possible a number of organisations broadcast board meetings live on the web and/or

make recordings of meetings available via their websites. As part of the commitment to openness and transparency the Board should consider whether this would be an option for the future.

67. Overall we concluded that the Board is open and transparent although we believe that there are some areas where the Board could make improvements to the current arrangements.

## Internal control

68. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
69. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
70. We did, however, identify a small number of areas where controls could usefully be enhanced. We reported our findings, in our "**Review of Internal Controls 2014/15**", to the Audit and Risk Committee on 14 May 2015.

## Internal audit

71. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. We are

required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

72. Internal audit at NHS NSS was provided by PricewaterhouseCoopers (PwC) for the 2014/15 financial year. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.
73. The internal audit plan for 2014/15 was materially complete at the time of our review, and we were able to place formal reliance on the intended aspects of internal audit work as set out in our Annual Audit Plan.

## ICT audit

74. ICT is a key area of control because it underpins all systems used by the Board. As part of our planning process we carried out a high level review of ICT covering a number of areas. This included investment in ICT infrastructure and systems, management's response to the national ICT resilience review and management's strategies and plans for the implementation of digital services.
75. Overall, we concluded that the Board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

## Arrangements for the prevention and detection of fraud

76. The Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

## National Fraud Initiative in Scotland

77. NHS NSS participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
78. Data initially submitted by NHS NSS for NFI creditors matching contained inconsistencies due to the transfer to National Single Instance. Data was resubmitted and matches were received in April 2015, but the matches were again found to be unreliable. NHS NSS is currently working with NFI to resolve this issue.
79. We understand that investigation of payroll matches (5 recommended and 31 in total) has now been completed. We are also advised that the approach to the creditor matches has been agreed and will commence once the issues outlined above have been resolved.

**Action plan 1**

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

80. 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.

## Freedom of Information requests

81. The Board reports that 96.9% of FOI requests were processed within the statutory timescales. The document used to record performance was in the form of a spreadsheet. It was not immediately clear how the percentage had been calculated or how the figures reconciled. We are satisfied that the percentage reported is materially correct and have no significant concerns about the procedures followed by the Board in processing FOI requests. Management have agreed to revise the spreadsheet to ensure a clearer audit trail.

## Scottish Wide Area Network (SWAN)

82. NHS NSS has procured a single public sector communications network, the Scottish Wide Area Network (SWAN). Public sector bodies can opt in to the facility by entering into a membership agreement. Members may then, via a framework agreement with the contractor, obtain a range of services beyond simple access to the network.

83. Following a number of issues emerging in relation to the SWAN migration during the latter part of 2014 and subsequent deterioration of service delivery and migration the contractor has commissioned an independent review by external consultants Scott Moncrieff.

84. The review is expected to consider whether:
- the contractor is delivering its contractual obligations
  - the contractor has the capacity to deliver the system specified
  - the technical design is fit for purpose
  - the system has been implemented correctly
  - customer service management is satisfactory
  - the capacity of the contractor's SWAN team is adequate.

Meanwhile, NHS NSS continues to work closely with the contractor to ensure all contractual obligations are met.

## 2020 Vision

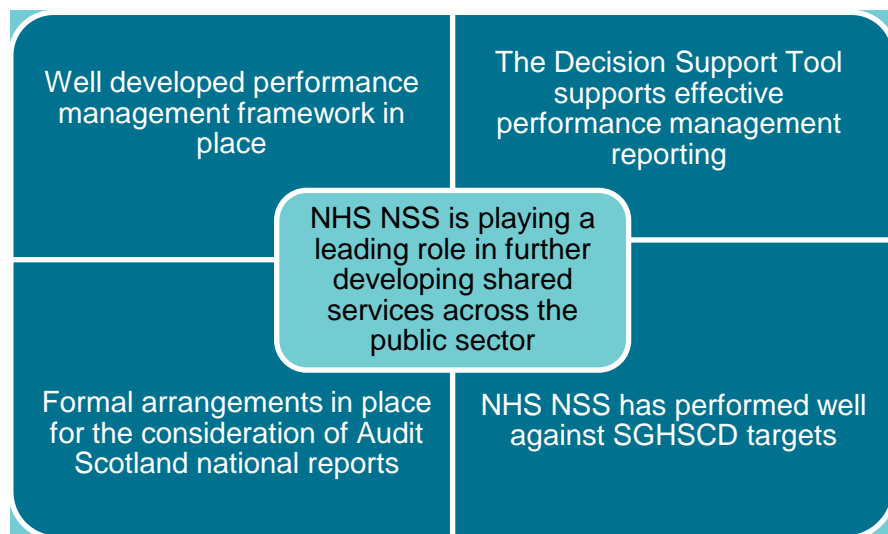
85. The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting.
86. NHS NSS has a strategy map detailing how the strategic objectives of the organisation link into the national priorities of the 2020 vision. NHS NSS has designed its objectives and outcomes so they meet requirements of the desired national outcomes, and it is evident through review of minutes and committee papers that consideration of how NHS NSS can effectively contribute to Scottish Government objectives is built into all service and strategy discussions.

87. NHS NSS is organised into strategic business units and support units. Each unit has a full operational plan, but also a strategic plan which details how it will develop and contribute to the five year organisational strategy. The individual strategies and budgets are then discussed and challenged as part of resource allocation meetings (RAMs).
88. Each SBU's operational and strategic plans link into the Scottish Government's 2020 Vision and the medium term financial strategy of NHS NSS which is based around the vision. The plans of the SBUs incorporate NHS NSS financial priorities, such as financial affordability, efficiency, and productivity. Financial implications of new projects/investments must be incorporated into proposals and these are linked to financial priorities before being authorised.
89. Individual plans will also, where appropriate, detail business expansion proposals over the medium term, which is a key aspect of the NHS NSS long term financial plan. IT for example has the objective of initially becoming a key partner within the health service, and then the wider public sector as it grows its business base and therefore its income generation for the Board - a key aspect of NHS NSS maintaining financial budgets in the future in light of expected further public sector cuts.
90. The local delivery plan (LDP) sets out the agreement between NHS NSS and Scottish Government regarding the targets to be delivered by NHS NSS in support of Scotland's 2020 Vision for health and social care and Scottish Government's National Strategic Objectives.
91. We have concluded that the Board is proactive in supporting health boards and other public sector organisations to deliver the Scottish Government's 2020 Vision.

## Outlook

92. The financial challenges facing the health service in Scotland are significant and growing. To meet these challenges and address the Scottish Government's 2020 Vision, shared services has been given a new impetus. A Guiding Coalition comprising board chairs, chief executives and SGHSCD has been formed and tasked with identifying the potential for further sharing of services. Shared services demand good governance and NHS NSS is uniquely placed to provide expertise in implementing appropriate governance arrangements.

# Best Value



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

## Arrangements for securing Best Value

94. NHS NSS has well established arrangements in place for securing best value.
95. The Board undertakes a biennial review of its performance against the Scottish Government's best value framework, and the next review will be presented to the Performance & Finance Committee in autumn 2015.

96. The Associate Director of Planning, Performance and Service Review has advised that progress has been made on the areas for improvement identified in the previous self assessment. Benchmarking is undertaken by all SBUs where comparators have been identified. The budget planning process also aimed to identify efficiencies, with SBUs considering their performance against comparator organisations, including the private sector.
97. We will monitor the findings of the 2015 self-evaluation against Scottish Government best value framework as part of our 2015/16 audit process.

## Performance management

98. The performance of NHS NSS is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the Board's 2014/15 LDP.
99. The Board has a well developed Performance Management Framework in place. A Corporate Performance Framework, the Decision Support Tool (DST), incorporates all HEAT and LDP targets and standards, as well as performance in other areas of service activity.
100. Performance is reported to the EMT on a monthly basis; the Performance & Finance Committee on a quarterly basis; and the Board and Scottish Government on a bi-annual basis. In addition,

quarterly meetings are held with Scottish Government sponsors where performance against LDP is routinely discussed.

## Overview of performance targets in 2014/15

- 101.** As a special health board, many HEAT targets are not applicable to NHS NSS. The targets which do apply are;
- to operate within the agreed revenue resource limit, capital resource limit and meet their cash requirement.
  - to achieve a sickness absence rate of 4%.
  - 1% reduction in energy consumption.
  - 3% reduction in energy based carbons emissions
- 102.** In 2014/15 NHS NSS met or exceeded all its financial HEAT targets. This included delivering CRES, cash and revenue resource limit efficiencies of £12.5 million, £1.1 million and £0.2 million respectively.
- 103.** NHS NSS failed to achieve its in-year environmental targets, with increased CO<sub>2</sub> emissions of 4.3% and increased energy consumption (gas & electricity) of 3.4%. This was against in-year targets of 3% and 1% respectively. NHS NSS did, however, achieve its 5 year target for CO<sub>2</sub> emissions with a reduction of 21% against a target of 20%. Energy consumption (gas & electricity) also reduced over the 5 year period.
- 104.** The sickness absence rate for 2014/15 was 3.8%, down from 3.9% in the previous year. This meets both the HEAT target and the NHS NSS internally set local target of 3.8%.

- 105.** In relation to the LDP, NHS NSS is required to deliver 26 targets within which there are 102 performance indicators. In 2014/15 NHS NSS achieved 89 of the 102 measures. Of the measures which were not achieved, none were assessed as having a business, clinical or reputational risk.

## Supporting the wider public sector

- 106.** NHS NSS is leading on a programme of work to develop shared services across a number of services, including clinical, non clinical and support services, with desired outcomes and clear guiding principles linked to the 2020 vision. This has included the Central Legal Office providing services to Non-Departmental Public Bodies (NDPBs); and Public Health and Intelligence and Information Technology Business Units working together to deliver integrated data and programme management services to two local councils.
- 107.** An NHS NSS objective is to increase its business and consequently its revenues from the wider public sector. The aim was to 'create and deliver an increasing range of viable new businesses for NSS which serve, and deliver benefits to, the Scottish Public Sector beyond health'. The indicator for success was to generate £0.250 million of legal services and £0.300 million of IT income in the financial year: these targets were not met for 2014/15.
- 108.** Overall, however, NHS NSS has developed a clear strategy for building objectives with partners across the public sector and this is one of its key areas for business development over the next few years.

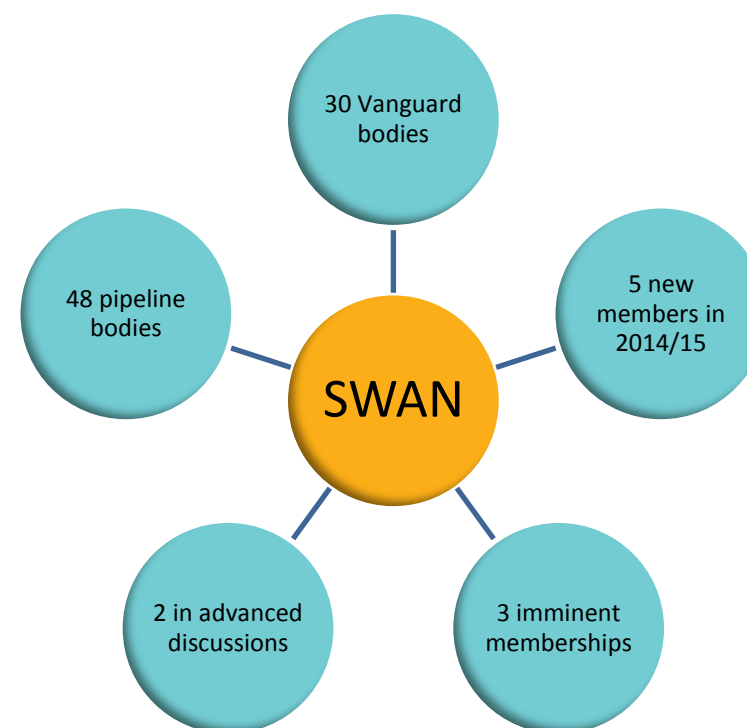


109. NHS NSS has also led on a number of major Scottish infrastructure projects including IT, data management, climate change and public service reform, and is involved in the Borders Health and Social Care Integration pilot.
110. The Scottish Wide Area Network (SWAN) is a NHS NSS led programme in partnership with the wider public sector created as a response to the McClelland review of ICT infrastructure in the Scottish public sector. The project brought together bodies from across the public sector and in so doing provided one of the first examples of direct cross sector collaboration.
111. The initial phase of the programme is now delivering services to the four SWAN Vanguard Partners (consisting 30 different organisations) and continues to attract new participants. Figure 2.

## Health and Social Care Integration

112. 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. The Board now is well placed to work with the wider public sector in supporting the introduction of health and social care integration.
113. While NHS NSS has no direct involvement in health and social care partnerships, it has an important role in supporting the process and shared services across the public sector.

Figure 2: SWAN participation



Source: NHS NSS National Information Systems Group

114. The Scottish Government has commissioned the Information Services Division (ISD) of NHS NSS to work with a range of stakeholders to develop a platform to inform intelligent commissioning strategies, support decisions on investment and improve service redesign.

## National performance audit reports

- 115. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the Board. These are summarised in appendix III.
- 116. NHS NSS has processes in place to ensure that all national performance reports and their impact on the Board are considered by relevant committees as appropriate.
- 117. From our attendance at the Audit & Risk Committee, and review of other committee minutes, we concluded that the arrangements for considering national performance audit reports are consistent with good practice.

## Equalities

- 118. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

- 119. The Board published its report Equality Mainstream and Workforce Data in April 2015.
- 120. The Board had previously approved its Equalities Outcomes Plan 2013-17 in April 2013. Progress reports are considered by the Board annually. The most recent update was submitted to the Board meeting in April 2015.

## Outlook

- 121. Audit Scotland in its annual overview of the NHS in Scotland highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
- 122. The effort that NHS boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.

# Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Financial management</b> – Whilst current projections forecast a breakeven position, until the year end it is not possible to definitively conclude that financial targets have been achieved.</p>	<ul style="list-style-type: none"> <li>• Attended committee meetings and reviewed papers to assess progress.</li> <li>• Monitored updates to the Financial Plan.</li> <li>• Reviewed the financial monitoring reports submitted to the Board.</li> <li>• Monitored outcomes of discussions with SGHD.</li> <li>• Reviewed monthly monitoring returns submitted to SGHD.</li> </ul>	<ul style="list-style-type: none"> <li>• NHS NSS achieved all of its financial targets for 2014/15.</li> <li>• We have concluded that financial management is sound.</li> </ul>
<p><b>Accounting treatment for major projects</b> – NHS NSS undertakes a number of complex projects where the accounting treatment is not always clear. These present a risk of misclassification and/or misstatement.</p>	<ul style="list-style-type: none"> <li>• Reviewed the proposed accounting treatment for significant projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposed accounting treatment for SWAN was agreed with Audit Scotland.</li> <li>• We are satisfied with the accounting treatment for the new SNBTS facility.</li> </ul>

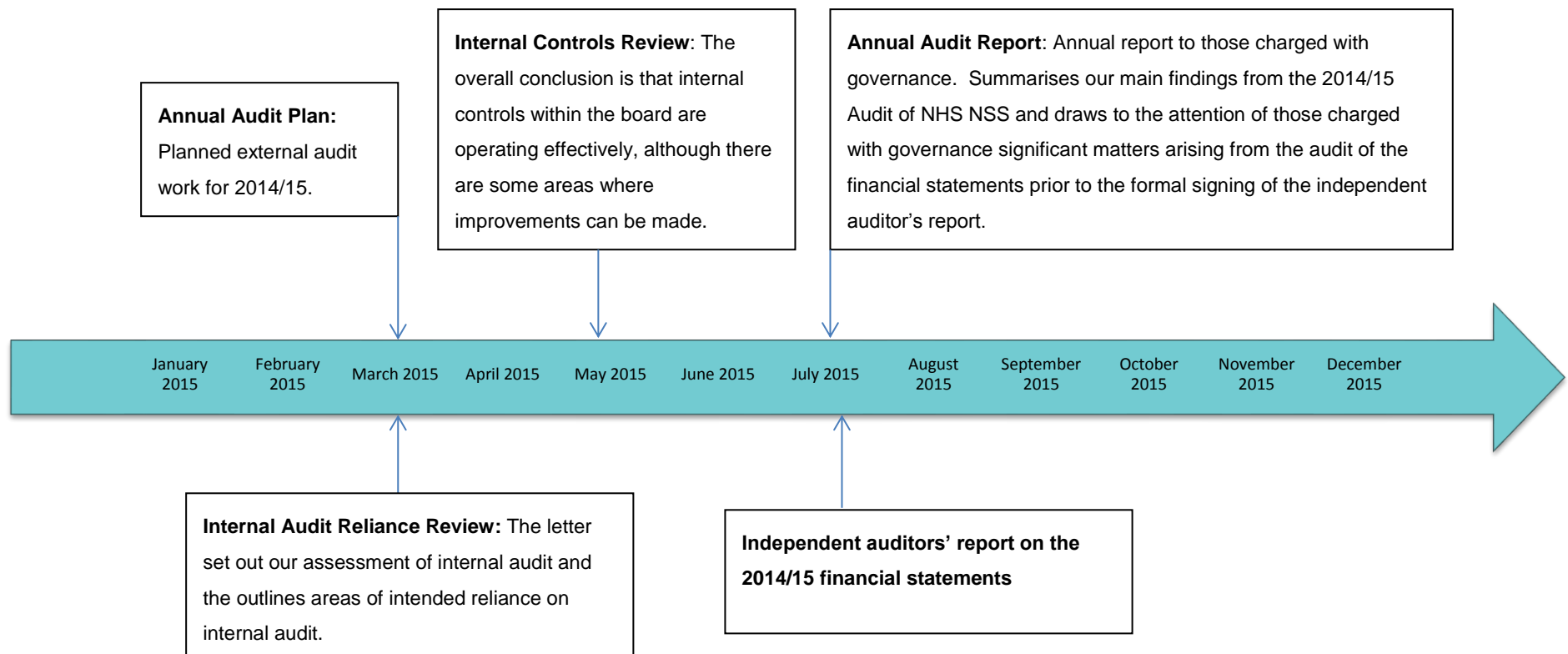
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Exit packages</b> – In 2013/14 we identified two exit packages that were overpaid during the year. This resulted from a lack of evidencing of controls and control procedures not being adequately followed by staff.</p> <p>There is a risk that NHS NSS suffers financial loss and reputational damage as a consequence of a failure to apply internal controls as expected.</p>	<ul style="list-style-type: none"> <li>• Detailed review of internal audit work and consideration of progress in addressing identified weaknesses.</li> <li>• Substantive testing of all exit packages awarded during 2014/15.</li> </ul>	<ul style="list-style-type: none"> <li>• Internal audit were satisfied with the action taken to address prior year issues.</li> <li>• Substantive testing of exit packages awarded in year did not identify any errors.</li> </ul>
<p><b>CNORIS accounting</b> – A revised approach to the accounting for CNORIS for NHS boards has now been agreed which requires the establishment of a new provision to recognise the amount the Board will be obliged to contribute to the CNORIS scheme to meet future obligations. These accounting changes represent a risk of material misstatement to the financial statements.</p>	<ul style="list-style-type: none"> <li>• Audit testing on the prior year adjustment accounting treatment and disclosure.</li> <li>• Detailed audit testing of the new provision.</li> </ul>	<ul style="list-style-type: none"> <li>• We are satisfied with disclosures relating to both the prior year adjustments and new provision.</li> </ul>
<p><b>Management override of controls</b> – ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Reviewed accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluated significant transactions that are outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>• We did not identify any issues regarding the potential for management override of controls.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Valuations</b> – The financial statements of NHS NSS include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• Completion of ‘review of the work of an expert’ for the professional valuer.</li> <li>• Focused substantive testing of key areas.</li> </ul>	<ul style="list-style-type: none"> <li>• We are satisfied that the assumptions and estimates included in the financial statement are reasonable.</li> </ul>
<p><b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b></p>		
<p><b>Annual internal audit opinion</b> – There is a risk that the Board does not receive an adequate level of assurance from the 2014/15 internal audit report and that the Governance Statement does not comply with Scottish Government guidance.</p>	<ul style="list-style-type: none"> <li>• Detailed review of internal audit work, and considered the format and terminology used in internal audit annual report.</li> </ul>	<ul style="list-style-type: none"> <li>• We placed formal reliance on the work of internal audit, and are satisfied with the wording used in their opinion on the system of internal controls.</li> <li>• We are satisfied that the Governance Statement complies with Scottish Government guidance.</li> </ul>
<p><b>Vacancy management</b> – A number of strategic business units (SBUs) have reported budget underspends during 2014/15 relating to vacancy management. There is a risk that SBUs are unable to maintain service delivery standards if they are operating below establishment for sustained periods of time.</p>	<ul style="list-style-type: none"> <li>• Reviewed budget monitoring statements.</li> <li>• Detailed review of budgetary control.</li> </ul>	<ul style="list-style-type: none"> <li>• The recommendations from our work on budgetary control were reported in our reliance on internal controls report for 2014/15.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Electronic Employee Support System (eESS)</b> –There is a risk that the eESS system does not provide the anticipated functionality.</p>	<ul style="list-style-type: none"> <li>• Preliminary systems evaluation and focused substantive testing.</li> </ul>	<ul style="list-style-type: none"> <li>• The eESS system was formally implemented in April 2015. We will consider including a review of the system as part of our 2015/16 audit.</li> </ul>

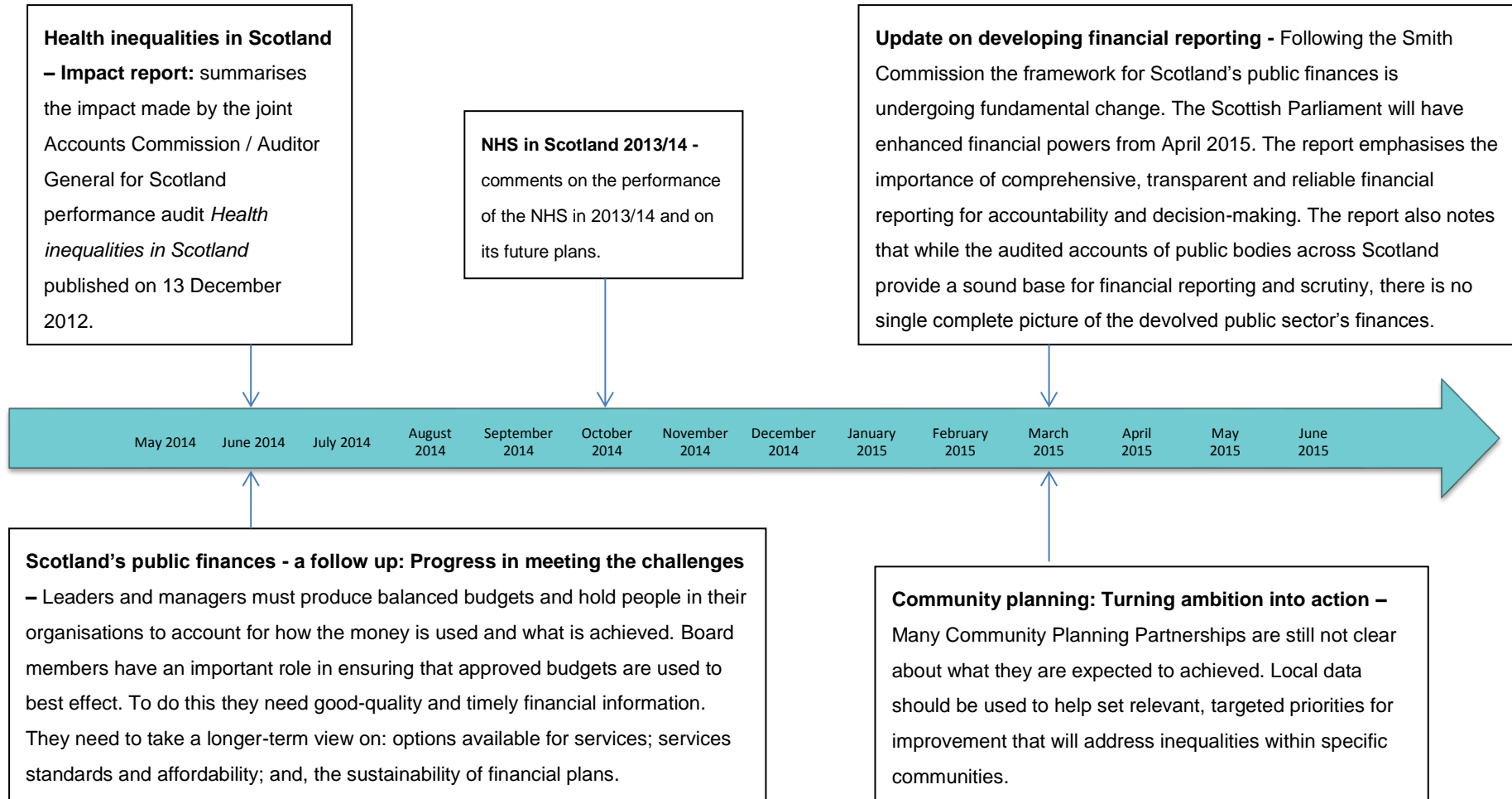
# Appendix II

## Summary of NHS National Services Scotland local audit reports 2014/15



# Appendix III

## Summary of Audit Scotland national reports 2014/15





# Appendix IV

## Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 20/79	<p><b>Issue</b></p> <p>The 2014/15 NFI exercise has been delayed due to technical issues with data submission.</p> <p><b>Risk</b></p> <p>Existing fraud or error is not being identified.</p> <p>Reputational damage to NHS NSS and Counter Fraud Services.</p> <p><b>Recommendation</b></p> <p>Investigation of all high priority matches is conducted as soon as possible.</p>	The recommendation will be taken forward as a priority.	Fraud Liaison Officer	July 2015