Scott-Moncrieff
business advisers and accountants

NHS24

Annual report on the 2015/16 audit to NHS24 and the Auditor General for Scotland

July 2016

Contents

Executive summary

This report summarises the findings of our 2015/16 audit of NHS24.

Annual accounts

NHS24's annual report and accounts for the year ended 31 March 2016 were approved by the Board on 21 June 2016. We have reported an unqualified opinion on the financial statements for the year ended 31 March 2016 and on the regularity of transactions reflected in those financial statements. We are also satisfied that there are no matters which we are required to report on by exception.

The annual report and accounts were submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland by the agreed date of 30 June 2016.

Financial management

NHS24 met all of its financial targets during 2015/16. A surplus of £0.055 million was reported against its Revenue Resource Limit (RRL) of £74.237 million.

NHS24 achieved 100% of the planned 3% efficiency savings for 2015/16. However, as a result of additional cost pressures arising from the delay in implementation of the Future Programme, an additional non-recurring savings target of £1.5million was identified during the year to compensate for £1.1 million costs incurred on the Future Programme in excess of those budgeted. As at 31 March 2016, NHS24 had achieved savings of £0.800 million, resulting in a £0.700 million shortfall against target which had to be funded through a combination of small underspends across the organisation and the application of the 2015/16 corporate reserve.

Overall, we have found that NHS24 generally has appropriate processes in place to manage its resources from an operational perspective, but has suffered from the financial implications of the technical and operational setbacks on the Future Programme. These continued setbacks are having a significant impact on its financial position and projections.

Financial sustainability

NHS24 has submitted a revised LDP to the SGHSCD covering the financial years 2016/17 to 2020/21. NHS24 has currently forecast a break-even position for all years against its anticipated RRL.

NHS24's LDP for 2016/17 identifies a total resource outturn of £72.330 million. This includes £10.1 million for Future Programme implementation and double running costs in 2016/17. Implementation costs represent 40% of this £10.1 million, and the remaining 60% constitutes double running costs.

Within the LDP, a total efficiency saving for 2016/17 of £3.315 million has been recognised. £2.855 million (86%) is anticipated to derive from service productivity,

- **NHS24 incurred total spend of £74.182 million during 2015/16: a saving of £0.055 million against RRL.**
- **Costs of £13.837 million were incurred during 2015/16 in respect of activity associated with the Future Programme, £1.1 million in excess of that budgeted.**
- **Capital expenditure in year totaled £0.087 million compared with a CRL of £0.090 million.**
- **NHS24's balance sheet as at 31 March 2016 carries a net liability of £3.566 million which will be met by receipt of future funding from the Scottish Government.**
- **NHS24 achieved 100% of its planned 3% efficiency savings for 2015/16.**
- **NHS24's LDP for 2016/17 identifies a total resource outturn of £72.330 million. This includes £10.1 million for Future Programme implementation and double running costs in 2016/17 with a further £5.1m in 2017/18.**
- **The go-live date for the Future Programme will be delivered through a phased implementation. The implementation will start in Autumn 2016 and conclude by the end of 2017. Total costs are anticipated to be £131.2m. Full repayment of brokerage will be further delayed until 2021/22.**
- **£3.315 million of efficiency savings are included in NHS24's 2016/17 LDP, £0.260 million of which is yet to be identified.**
- **NHS24 has met 14 of its 15 key performance indicators set for 2015/16.**

£0.200 million (6%) from estates and facilities, and the remaining £0.260 million (8%) is yet to be identified. Savings are required to be identified every year to 2020/21 to ensure a balanced position is achieved.

Until the Future Programme is successfully launched and running as intended, NHS24 will continue to face significant uncertainty with regard to financial planning and sustainability. Further, there will continue to be significant pressure placed upon NHS24 to ensure that it does not breach its key financial target of staying within its allocated RRL. Whilst budgets have been prepared for 2016/17 to 2010/21 as part of the LDP process, required revisions will be almost certain.

Governance and transparency

We have found that NHS24 has operated with reasonable 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.

Our audit work identified no issues of concern in relation to governance, beyond the issues with the Future Programme which have been appropriately recognised within the Governance Statement.

We have reviewed the Governance Statement and are satisfied that it has been prepared in accordance with relevant guidance. We have also found that the processes and sources of assurance used to prepare the statement are reasonable and appropriate.

Value for money

During 2015/16, NHS24's focus has remained on maximising efficiency and effectiveness in order to continue to improve performance across all areas of frontline operations. In 2015/16, NHS24 has met 14 of its 15 key performance indicators (KPIs).

We have reviewed the processes and procedures in place within NHS24 in setting and monitoring KPIs during the financial year. We have verified performance statistics as disclosed within the Performance Report to underlying audit evidence to confirm the accuracy of disclosures, with no significant observations to note.

Future Programme

Since 2013 we have provided comments in our Annual Reports on the challenges faced by NHS 24 in implementing the Future Programme. The Future Programme was the subject of a Section 22 report in October 2015 and was subsequently considered by the Public Audit Committee at sessions in December, January and February.

The delay in implementation has continued and the current position is that at the end of June 2016 the NHS 24 Board agreed to implement some limited planned care services (representing approximately 10% of call volumes to NHS 24) in the autumn of 2016 with a phased roll-out to one board between January and March 2017. A national roll-out will then take place between October and December 2017, giving rise to double running costs continuing until January 2018. This approach will result in total projected costs of £131.2 million and a re-phasing of required brokerage repayments, which will now run until 2021/22.

Conclusion

This report concludes our audit for 2015/16. 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 Performance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
July 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of NHS24. The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit & Risk Committee.

2. The plan set out the core elements of our audit work during 2015/16, which have been:

   - An interim audit of NHS24's key financial systems and aspects of its corporate governance arrangements;
   - An audit of the draft 2015/16 financial statements, including a review of the governance statement;
   - A review of developments with the Future Programme, including a review of associated expenditure;
   - A follow-up review of NHS24's arrangements as part of the National Fraud Initiative data-matching exercise; and
   - Collation and a follow-up review of information on NHS24's workforce planning arrangements.

3. As part of our audit, we have also made use of the work of other inspection bodies including NHS24's internal audit service and Audit Scotland's Public Reporting Group.

4. Our 2015/16 External Audit Interim Report was presented to the March 2016 Audit & Risk Committee.

Responsibilities & reporting to those charged with governance

5. Our procedures are carried out solely for the purposes of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs).

6. NHS24 is responsible for preparing its annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

7. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Each recommendation has been given a grading to help NHS24 assess their significance and prioritise the actions required. NHS24 has assessed these recommendations and concluded on appropriate actions.

8. This report is addressed to both NHS24 and the Auditor General for Scotland and is published on Audit Scotland's website www.audit-scotland.gov.uk.

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Annual accounts

Annual accounts

Introduction

9. NHS24's 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 NHS24 and the auditor in relation to the financial statements are outlined in Appendix 4.

10. In this section we summarise the issues arising from our audit of NHS24's 2015/16 financial statements, the scope of which is set out in Appendix 3 of this report.

Overall Conclusion

An unqualified audit opinion

11. The financial statements for the year ended 31 March 2016 were approved by the Board on 21 June 2016. 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

12. We received draft annual report and 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.

13. The annual report and accounts were submitted to the Scottish Government and the Auditor General for Scotland in accordance with the 30 June 2016 deadline.

Our assessment of risks of material misstatement

14. The assessed risks of material misstatement were highlighted in our 2015/16 External Audit Plan previously presented to the Audit & 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.

15. We set out below the risks highlighted in our External Audit Plan together with a summary of our how our audit approach responded to these risks and the conclusions arising from our work.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Future Programme: Management of IT contract (as included within our External Audit Plan)

NHS 24 has invested extensively in the Future Programme over the past five years. As at November 2015, forecast implementation costs of £56.9 million are almost twice the original £29.6 million budgeted, and running costs of the system are currently forecast to be £60.5 million, £14.3 million greater than originally projected. The delay in implementing the new system has led to significant additional costs, both in respect of delivering the new operational system and maintaining the current system.

NHS 24's financial plan assumed that the first phase of the system would be operational by 1 November 2015, with the second phase concluded by 31 March 2016. However, ten days after the initial roll-out on 1 November, the system was withdrawn over concerns for patient safety. We understand the Future Programme is unlikely to go-live again before 30 June 2016. Additional costs in 2015/16, beyond those included in the current financial plans, are expected to be approximately £1.1 million, although further work is being undertaken to firm up on these costs, together with discussions with the Scottish Government over their funding. A revised implementation timetable is anticipated to be prepared by 31 December 2015.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Due to the scale of the challenge, and the need to identify further efficiency savings across NHS 24's spend portfolio, there is a risk that NHS 24 is unable to meet its financial targets in 2015/16 and beyond, including the achievement of a breakeven position against their Revenue Resource Limit (RRL).

The Auditor General has issued a Section 22 report on the Future Programme and this will be considered by the Scottish Parliament's Public Audit Committee in December 2015.

How the scope of our audit has responded to the risk has been included within the paragraphs below

Sequence of events

16. The Auditor General's Section 22 report *The 2014/15 audit of NHS 24: Update on management of an IT contract* was published on 8 October 2015 and presented to the Public Audit Committee on 2 December 2015. This report included reference to NHS 24's financial plan assuming that the first phase of the system would be operational by 1 November 2015, and the second phase concluded by 31 March 2016. However, as recognised within the above risk, the first phase roll-out was withdrawn after only ten days in service due to concerns over patient safety.

17. On 20 January 2016, NHS24's Interim Chief Executive, Director of Finance and former Chief Executive gave evidence on the above report at a further Public Audit Committee. The Committee was advised that the total cost of the Future Programme will be between £117.4 million (as referred to in the above risk) and £125 million.

18. This Public Audit Committee was subsequently followed by a Committee meeting on 24 February 2016, at which the Director General Health & Social Care and Chief Executive NHS Scotland and the Director-General Communities, Scottish Government provided oral evidence on the above report.

19. At the end of April 2016, we were advised by NHS24 that due to further technical, staffing and partner work-stream problems, the programme would not be re-launched in June 2016 as intended. At the end of June 2016 the NHS 24 Board agreed to implement some limited planned care services (representing approximately 10% of call volumes to NHS 24) in the autumn of 2016 and a phased roll-out to one board between January and March 2017. A national roll-out would then take place between October and December 2017, giving rise to double running costs continuing until January 2018. This approach will result in total projected costs of £131.2 million and a re-phasing of required brokerage repayments, which will now run until 2021/22.

Financial implications and audit work performed

20. NHS24's 2015/16 net budget for the Future Programme implementation, including double running costs of the current system, was £12.735 million. This position assumed a re-launch date of June 2016. Net costs of £13.837 million were incurred in year, £1.1 million (9%) over budget. These figures represent the net position after accounting for £1.9 million from previously committed expenditure which was charged against the 2014/15 RRL.

21. Note 6, *Administration costs,* within the accounts includes all costs associated with the Future Programme. Future Programme costs reported within the note include all direct costs of the Future Programme including the costs of the new BT and Capgemini contracts. Double running costs of the current Capita contract covering additional licencing and servicing costs, are subsumed within i) Software Developments, Licences and

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Maintenance; and ii) Telecommunication cost categories, also disclosed within note 6.

22. In order to stay within the 2015/16 revised RRL of £74.237 million, NHS24 has not repaid any brokerage within the financial year. This approach was agreed with Scottish Government Health and Social Care Directorate (SGHSCD) in July 2015.

23. We have audited the Future Programme costs reported within the draft financial statements, applying both substantive and analytical audit procedures, with no significant issues to note. We have reviewed a number of other non-Future Programme IT related account codes, including those accounts that feed into i) Software Developments, Licences and Maintenance and ii) Telecommunication as disclosed within note 6, and sample tested a range of expenditure within to satisfy that such spend has been correctly classified. We did not identify any errors within this work.

24. We have reviewed the spend in year on the Future Programme against the budget and forecast, in particular, reviewing the cost savings that had to be made to other general expenditure to accommodate the increase in spend required on the Future Programme. We are satisfied that the costs associated with the Future Programme have been clearly and sufficiently reported within the monthly Financial Performance Report, as presented to the Executive Management Team (EMT) and Board.

25. We have reviewed NHS24's financial projections for the 2016/17 financial year to satisfy ourselves that Future Programme costs have been appropriately reflected therein. Currently £10.1 million has been included within the 2016/17 Local Delivery Plan (LDP) in respect of implementation and double running costs. A further £5.1 million has been included in 2017/18 forecasts in respect of double running costs for the period April 2017 to January 2018 inclusive. At the time of completing this report, these 2017/18 projected costs are subject to further discussion with the existing supplier.

26. NHS24 is facing significant pressure to ensure that its RRL is not breached in future years, and this will only be further hampered by the recent delays announced on the re-launch of the programme. An analysis of current projected costs against those included within the original project business case and those reported in Audit Scotland's, October 2015 Section 22 report is as follows:

	Outline business case £million	October 2015 projected costs £million	Current projected costs (as at June 2016) £million	Projected overspend against business case £million
Implementation costs (including double running costs)	29.6	56.9	68.7	39.1
Ongoing support costs for ten year contract	46.2	60.5	62.5	16.3
Total	**75.8**	**117.4**	**131.2**	**55.4**

27. The brokerage repayment profile has again been revised following the recent delays to the programme. As at July 2015, agreement reached with SGHSCD allowed for the repayment of outstanding brokerage of £20.356 million in full in the four year period from 2017/18 to 2019/20, however the current proposal is that repayment is now extended a further two years, to 2021/22. An analysis of the brokerage repayment profile over the programme duration is outlined below:

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

	2011/12 £million	2012/13 £million	2013/14 £million	2014/15 £million	2015/16 £million	2016/17 £million
Brokerage received	0.320	16.577	3.859	-	-	-
Original repayment profile (per 2011 business case)	-	-	-	5.275	5.492	5.700
Revised repayment profile (as at July 2015)	-	-	-	0.400 (paid)	0.788	3.580
Revised repayment profile (as at June 2016 per 2016/21 LDP)	-	-	-	0.400 (paid)	-	-

	2017/18 £million	2018/19 £million	2019/20 £million	2020/21 £million	2021/22 £million	Total £million
Brokerage received	-	-	-	-	-	**20.756**
Original repayment profile (per 2011 business case)	3.689	-	-	-	-	**20.156**
Revised repayment profile 1 (as at July 2015)	4.334	6.224	5.430	-	-	**20.756**
Revised repayment profile (as at June 2016 per 2016/21 LDP)	0.123	6.292	5.622	5.256	3.063	**20.756**

28. We have reviewed the draft annual report and accounts to consider whether the Future Programme issues arising during the course of the financial year, and up to the date that the accounts were approved by the Board, are sufficiently and appropriately reflected within.

29. We have worked with NHS24 and have responded to questions raised by the Public Audit Committee's consideration of the Auditor General's Section 22 report.

30. Our specialist project management consultants have undertaken a further status review of the Future Programme, building upon their assessments conducted during 2013/14 and 2014/15. The results of this work are incorporated within section 7 of this report.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Conclusions

31. Whilst we have obtained assurance over the 2015/16 Future Programme accounting treatment, the financial implications remain significant and ongoing. A final, definitive budget for the implementation will only be attainable once the programme has been successfully launched and is operating within a business as usual environment.

32. Within our 2014/15 Annual Report and in Audit Scotland's Section 22 report, as presented to the PAC in October 2015, total projected costs for the programme of £117.4 million were identified. These costs represented a 55% increase on the £75.8 million included within the original programme business case. Whilst we understand that there have been some savings negotiated on this total projected cost of £117.4 million, failure to launch and further required double running costs have meant that the revised total projected cost of the programme is now £131.2 million, an increase in projected costs of £13.8 million in year. The revised total projected cost is now 73% above that in the original business case.

2. Revenue recognition (as included within our External Audit Plan)

Under ISA 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 NHS24 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.

How the scope of our audit has responded to the risk has been included within the paragraphs below

33. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions.

34. 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 NHS24's revenue recognition policy is appropriate and has been applied reasonably.

3. Management override (as included within our External Audit Plan)

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 ISA 240.

How the scope of our audit has responded to the risk has been included within the paragraphs below

35. 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.

Other matters identified during our audit

36. During the course of our work, we noted the following matters.

Remuneration report disclosures

37. Our review of the draft remuneration report identified that compensation payments relating to two members of senior management who left the organisation during the year had been omitted from the remuneration disclosure. This is inconsistent with the requirement of the NHS Manual for Accounts which defines remuneration as:

- All amounts paid or payable by the Board including recharges from any other health body;
- The gross cost of any arrangement whereby a director receives a net amount and a Board pays income tax on their behalf;
- Any financial loss allowances paid in place of remuneration;
- Geographical allowances;
- Golden hellos: payments made as an incentive for particular staff to join the Board; and
- Compensation for loss of office: the amount of any compensation paid or payable to directors or past directors in respect of loss of office.

38. No Cash Equivalent Transfer Value (CETV) as at the respective leave dates had been included within the pension table for these two individuals. EPN 452, guidance accompanying the FReM, requires that pension information should be included for leavers (and starters) that relates to the period during which they were in a post.

39. The NHS Manual for Accounts also requires full year equivalent remuneration (in bands of £5,000) to be included where individuals included within the remuneration report have only been in post for part of the year. The draft remuneration report presented for audit contained no full year equivalent bands for eight individuals who had either started or left within the year.

40. From 1 April 2015, the NHS has had a new career average pension scheme in place (CARE). The standard CETV calculator made available by the Scottish Public Pensions Agency (SPPA) is unable to correctly calculate the CETV for individuals within the CARE scheme, and instead, SPPA have had to provide the CETV figures directly. There was one individual included within the Remuneration Report who is a member of this scheme: draft CETV figures for this individual had to be revised.

41. We are satisfied that the remuneration report has since been revised to correct for the above observations.

Third party confirmations

42. A standard element of our overall audit approach is to seek written confirmation from solicitors used by clients during the financial period to inform our understanding of litigations, claims and assessments.

43. This exercise identified one return which referred to a sum of money currently due by NHS24 in respect of unbilled legal fees relating to services provided during the financial year.

44. NHS24, supported by the NHS Central Legal office (CLO), has taken the view that no associated liability exits. We have reviewed the correspondence, including confirmation of the CLO's position, and are satisfied that the accounts are fairly presented in respect of the matter raised.

Contingent asset

45. NHS24 has recognised an unquantified contingent asset within their accounts which relates to the potential recovery of money from a third party advisor.

46. We have reviewed correspondence between NHS24 and the supplier on the matter and have also reviewed the CLO's assessment of the circumstances and are satisfied that the recognition of an unquantified contingent asset within the accounts is appropriate.

Other matters and associated management actions

47. The following low risk matters have been reported on more fully within Appendix 1 of this report: Management action plan:

Fully depreciated non-current assets
Management action plan point 1

Non-current asset tagging
Management action plan point 2

Audit differences

48. Our audit testing in combination with discussions with management identified two adjustments that have been made to the financial statements:

	SoCNE		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
NHS Board receivables			35	
Accrued income			171	
Other receivables				206
Being the reclassification of receivables incorrectly reported under 'Other receivables'				
Other HCH income	1,546			
Admin income		1,546		
Being the reclassification of income incorrectly reported under 'Other HCH income'				

49. In addition to the above adjustments, during the course of our audit work, we identified two unadjusted items which have been documented within Appendix 2 of this report. These items are not considered to be material to the financial statements individually or in aggregate.

50. We also identified a number of further minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Regularity

51. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of solicitors used by NHS24 the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

52. This audit work did not identify any instances of irregular activity.

Prior year audit recommendations

53. Our 2014/15 audit identified three low to moderate risk exposure findings. From the work conducted during our 2015/16 audit, we can confirm that all three of these recommendations have been adequately addressed.

Qualitative aspects of accounting practices and financial reporting

54. During the course of our audit, we 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 annual report and accounts. The following observations have been made:

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 NHS24.
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: liabilities and obligations, asset depreciation and amortisation rates and the valuation of provisions. Where appropriate, NHS24 has utilised the work of independent experts or industry practice to support the estimates made. We are satisfied that the matters reflected within this report in respect of asset lives do not have a material bearing on the accounts.
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. We are satisfied that the matters reflected within this report in respect of litigations and third party confirmations have been adequately supported and are appropriately addressed within the accounts.
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 or unusual transactions in the period, outwith our understanding of the entity. We consider the presentation of other administration costs, including Future Programme activity, as disclosed within note 6 to the accounts to be appropriate in aiding the readers' understanding.
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.

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Financial management

Financial management

Introduction

55. It is NHS24's responsibility to ensure that its financial affairs are conducted in a proper manner. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

56. This section of the report sets out the main findings from our review of how NHS24 manages its key resources in terms of financial performance. Our conclusions are based on a review of NHS24's key financial systems, financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

Overall conclusion

57. Overall, we have found that NHS24 generally has appropriate processes in place to manage its resources from an operational perspective, but has suffered from the financial implications of the technical setbacks on the Future Programme. These continued setbacks are having a significant impact on its financial position and projections.

NHS24's financial performance in 2015/16

NHS24 met its key financial targets for the year

58. NHS24 is required to work within the resource limits and cash requirements set by the SGHSCD. As set out below, NHS24 has met all of its key financial targets in 2015/16.

Key Financial Target	Target £million	Actual £million	Underspend /(overspend) £million	Target achieved?
Core revenue resource limit	73.378	73.323	0.055	Yes
Non-core revenue resource limit	0.859	0.859	-	Yes
Revenue resource limit	**74.237**	**74.182**	**0.055**	Yes
Capital resource limit	**0.090**	**0.087**	**0.003**	Yes
Cash requirement	**78.863**	**78.863**	**-**	Yes

A saving of £0.055 million against RRL

59. NHS24 has reported an overall saving of £0.055 million (0.07% underspend) against its RRL of £74.237 million in year.

60. This position has been attained through the combination of a number of overspends and compensating underspends at service delivery level. In summary:

- The most significant overspend in year relates to the Future Programme, where £1.1 million more than originally budgeted has been incurred. These additional costs arose primarily as a result of the withdrawal of the live system in November 2015.
- A further overspend of £0.759 million was incurred on unscheduled care core services. £0.700 million of this related to the failure to fully achieve a non-recurring savings target of £1.5 million required to cover the additional costs of the Future Programme. This £0.700 million saving had originally been ear-marked from Service Redesign as a result of the increased time required to recruit specialist staff. (An increase to the number of physiotherapy and pharmacy posts was previously agreed as part of the workforce plan to improve the level of support available from these specialists and to mitigate against the expected reduction in nurses nationwide.) However, as the year continued, there has been an overall improvement in the availability of nurses, removing the need to recruit the levels of

specialists anticipated. This has diluted the opportunity to achieve the savings originally identified.

- These two significant overspends were off-set by a combination of small underspends across the organisation and the application of the 2015/16 corporate reserve.

Efficiency savings target of £1.934 million for 2015/16 has been achieved

61. Within the revised LDP, agreed with SGHSCD in July 2015, NHS24 identified £1.934 million of efficiency savings in order to meet the 3% efficiency target set by the SGHSCD. As reported within our Interim Report, NHS24 had achieved this target as at 31 December 2015, following an exercise at the outset of the financial year to top slice budgets identified for savings.

A saving of £0.003 million against CRL

62. During the year, decisions were made to delay two capital schemes as a result of their proximity to the Easter bank holiday period: i) the accommodation review; and ii) the air conditioning replacement at Norseman House. Both projects are now scheduled to take place during 2016/17.

63. Following this slippage, NHS24 agreed with SGHSCD a capital to revenue transfer of £0.210 million which reduced the originally agreed Capital Resource Limit (CRL) of £0.3 million to £0.090 million for 2015/16.

Repayment of brokerage

64. The withdrawal of the Future Programme from service in November 2015 has meant that the budget for brokerage repayment in year of £0.788 million has instead been required to cover a portion of the costs incurred in extending the existing Capita contract.

65. NHS24's revised five year financial plan agreed by the Board in July 2015 allowed for the repayment of brokerage of £20.356 million commencing in 2017/18 and ending in 2019/20. Discussions are currently ongoing between NHS24 and SGHSCD with respect to the current re-profiling of these future repayments. The 2016/2021 LDP includes repayments commencing in 2017/18 and concluding in 2021/22.

Balance Sheet position

66. NHS24 has reported a £3.566 million net liability balance sheet position as at 31 March 2016. This represents a £3.995 million reduction in net liability compared with the position at 31 March 2015.

67. A reduction to the non-current asset base of £0.738 million in year is primarily as a result of annual depreciation and amortisation charges.

68. Current assets have increased by £1.175 million in year: a £0.489 million increase in receivables, arising from an increase in the receivable associated with the CNORIS2 provisions of £0.895 million, coupled with a £0.304 million reduction to the VAT receivable. In addition, there was a £0.686 million increase in cash held at year end. This is understood to be a result of timing of receipts for European project funding.

69. Total liabilities have decreased from £13.476 million as at 31 March 2015 to £9.918 million as at 31 March 2016. An increase of £0.918 million in provisions in year, predominantly resulting from clinical and medical related provisions arising in year, and an upward movement of £0.686 million to the general fund payable which reflects the movement on the cash balance in year have been offset by a reduction in payables of £4.476 million. This reduction is explained by £5.517 million of accruals in relation to Future Programme costs which were recognised as at 31 March 2015 but are not replicated at 31 March 2016.

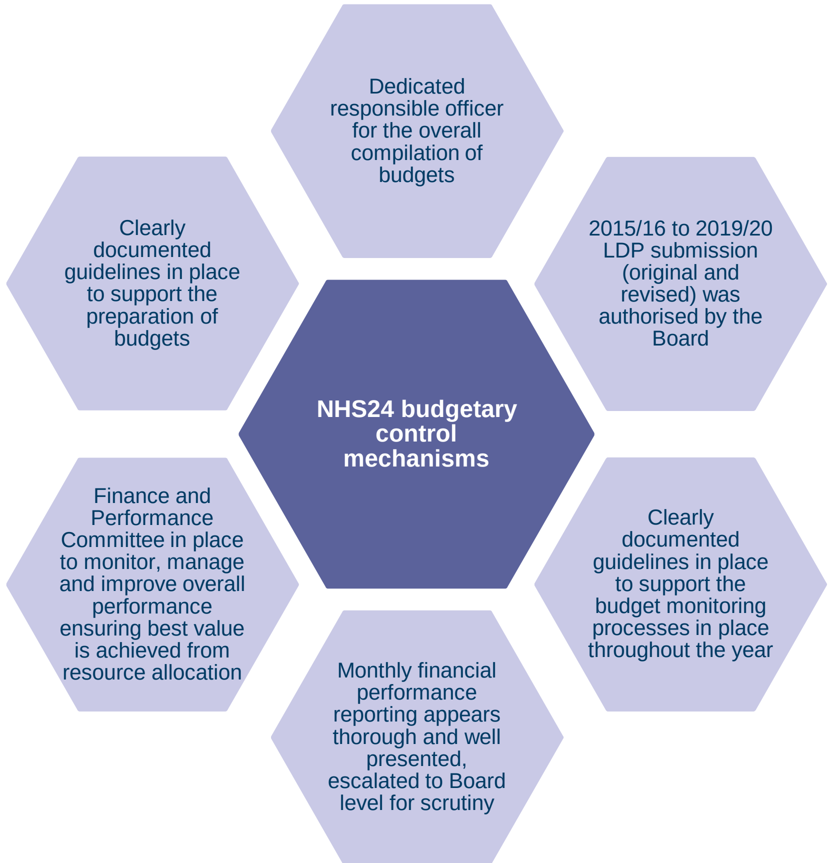
Review of key financial systems and budgetary control

70. Our work did not identify any significant deficiencies in the operation or design of internal financial controls over NHS24's key financial systems. We consider these systems to be well designed and operating effectively. Reliance has been placed on these controls within our 2015/16 audit.

71. Financial plans for the five year period covering 2015/16 to 2019/20 were submitted to the SGHSCD in March 2015, following review and approval by the NHS24 Board, as part of the LDP process.

72. Due to Future Programme developments and settlement of legal action against Capgemini through mediation, the LDP had to be resubmitted to SGHSCD in July 2015 to reflect the increased cost profile associated with the programme.

73. Overall, we consider that NHS24 has established adequate arrangements to ensure that its financial position is soundly based and monitored. From our review of evidence made available to us, key aspects to note include:



4

Financial sustainability

Financial sustainability

Introduction

74. Financial sustainability looks forward to the medium and longer term to consider whether NHS24 is planning effectively to continue to deliver its services.

Overall conclusion

75. Until the Future Programme is successfully launched and running as intended, NHS24 will continue to face significant uncertainty with regard to financial planning and sustainability. While budgets have now been prepared for 2016/17 to 2020/21 through the LDP process, required revisions will be almost certain.

Financial forecasts

Budgets have been prepared for 2016/17 to 2020/21 through the LDP process

76. NHS24 has submitted its LDP to the SGHSCD covering the financial years 2016/17 to 2020/21. NHS24 has currently forecast a break-even position for 2016/17 to 2020/21 against its anticipated RRL.

77. The core RRL available to NHS24 is forecast to decrease to £72.330 million in 2016/17 with a further reduction in 2017/18, and 2018/19. Anticipated core RRL for 2019/20 and 2020/21 remains similar to 2018/19 levels.

78. NHS24's LDP for 2016/17 identifies a total resource outturn of £72.330 million. This includes £10.1 million for Future Programme implementation and double running costs in 2016/17. Implementation costs represent 40% of this £10.1 million, and the remaining 60% constitutes double running costs. A further £5.1 million of double running costs have been included within the 2017/18 budget, covering the period April 2017 to January 2018 inclusive.

79. The LDP has been prepared based on a number of financial planning assumptions. The key objectives within these assumptions are to ensure that NHS24 delivers against its statutory responsibility to confirm financial balance over the five year period of the plan.

80. NHS24 is continuing to develop its five year strategy and the development of the LDP is a step to achieving this.

81. Significant financial challenges placed on the Scottish public sector remain, and it is recognised that there continues to be limited information available to NHS24 beyond the short term regarding the certainty of on-going levels of funding. To compensate for this, NHS24 should seek to undertake scenario planning, focussing on priorities, as part of their long-term financial strategies. This should include making assumptions regarding varying levels of future income, expenditure and activity and outlining options based on each scenario. This should help to identify potential solutions to difficulties arising from variations in levels of future funding, whilst maintaining service levels.

82. In the absence of scenario planning, there is a risk that public bodies continue taking a short-term approach, hindering their ability to derive meaningful five year plans.

Management action plan point 3

NHS24 has identified an efficiency savings target of £3.315 million for 2016/17

83. Within the LDP, a total efficiency saving for 2016/17 of £3.315 million has been recognised. £2.855 million (86%) is anticipated to derive from service productivity, £0.200 million (6%) from estates and facilities, and the remaining £0.260 million (8%) is yet to be identified. Savings are required to be identified every year to 2020/21 to ensure a balanced position is achieved.

84. Until the Future Programme is successfully launched and running as intended, NHS24 will continue to face significant uncertainty with regard to financial planning and sustainability. Further, there will continue to be significant pressure placed upon NHS24 to ensure that it does not breach its key financial target of staying within its allocated RRL.

Identified risks impacting delivery against LDP

85. The accompanying financial planning risk assessment on the submitted LDP includes six key assumptions / risks that may impact on delivery against the LDP. These are:

Key assumption / risk	Risk rating	Impact
Future Programme There are significant additional costs in relation to continuing with the current systems and updating them where appropriate.	High	Every month the programme is delayed has a cost to NHS24 of around £500k. A sum of £10.1 million is included in the financial plan for double running and implementation costs for the 2016/17 financial year and a further £5.1 million is included for 2017/18.
Achievement of efficiency savings plans (1) There is a significant savings challenge faced in 2016/17, the first year of the five year plan. There is a risk that the workforce redesign and transformation required to deliver this is not achieved.	High	Savings required in 2016/17 are £3.3 million. The majority of the savings have been identified and agreed with departments, but the size of the savings represents a challenge to delivery.
Achievement of efficiency savings plans (2) There is a risk that efficiency savings are not achievable within years 2, 3, 4 and 5 of the plan.	High	If NHS24 is unable to identify recurring savings in the later years of the five year plan then this could threaten the ability to meet statutory financial targets.
Brokerage repayment There is a risk that the brokerage repayment profile within the financial plan is not deliverable as a result of an inability to generate efficiency savings from 2017/18 onwards.	High	The overall impact of the delay to the system implementation has resulted in a change to the brokerage repayment schedule, with no repayment in 2016/17 but large repayments in subsequent years. The brokerage repayment terms now extend to 2021/22. This could extend further should efficiency savings not be sufficient to deliver the planned repayment profile.
Strategic workforce plan There is a risk that the key workforce planning assumptions are not delivered in year.	Medium	This could lead to a situation specifically in relation to clinical staffing where the staffing profile is insufficient to continuously support safe service delivery levels.
SG Funding There is a risk that funding will not be provided for additional services provided by NHS24 such as MSK.	Medium	The funding stream for scheduled services is non-recurring meaning that there is a financial risk in providing these services until funding is agreed.

Workforce planning

86. In November 2013, the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce.

87. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

88. As part of our 2015/16 audits, Audit Scotland has asked us to undertake a follow-up review to help in understanding to what extent public bodies are implementing the recommendations and help identify common and emerging issues.

89. We commenced this work during our interim audit in January 2016 and submitted our findings to Audit Scotland in accordance with their 1 June 2016 deadline.

90. Key findings from this work include:

- Organisational wide workforce plan in place, supported by individual frontline service plans. Plans project FTE based on expected call volumes and service demands.
- Approach is built on guidance contained within CEL 23 (2011) issued from the Scottish Government's Directorate for Health Workforce and Performance - Workforce Planning and Development Division.
- Current workforce plans do not explicitly cover succession planning for the medium and long term. However, NHS24 is in the process of refining and formalising the current approach to ensure that it appropriately addresses the coverage of the key skills required to deliver the service in the medium and longer term.
- Forecasts are in place for frontline staff and call handlers for a period of 12 months, reviewed and updated on a weekly basis.
- There is an Operational Workforce Planning Group and an Integrated Workforce, Service Delivery and Financial Planning Group in place to monitor activity and developments.

5

Governance and transparency

Governance and transparency

Introduction

91. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

92. NHS24 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.

Overall conclusion

93. We have found that NHS24 has operated with reasonable 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.

94. As we acknowledged in our Interim Report, changes to key Board membership within any organisation, are accompanied by challenges in ensuring that strong governance arrangements supporting the organisation continue to operate robustly and consistently. We are pleased to note that our audit work has not identified any matters of significant concern with regard to the effective governance of the overall organisation during the reporting period.

95. The *Future Programme* section of this report provides detail on the programme governance arrangements that have operated in respect of the Future Programme during the financial year.

Systems of internal control

96. In line with International Standards on Auditing (ISAs) we have considered the internal controls relevant to the maintenance of NHS24's accounting records and preparation of financial statements. We did not identify any significant weaknesses in relation to the internal financial controls in place over NHS24'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 Future Programme.

Risk management

97. 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.

98. NHS24 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.

99. The EMT is responsible for overseeing the identification and monitoring of risks, providing quarterly updates to the Board. The Audit & Risk Committee also include risk as a standing agenda item. An Operational Risk Management Group is in place for sharing risk information across NHS24, reporting to the EMT on a monthly basis.

100. NHS24 has a Corporate Risk Register and Directorate-level registers. All risks are allocated to a 'risk lead', and review dates are documented.

101. The unsuccessful implementation of the Future Programme has led to the identification and management of a number of significant organisational, reputational and financial high risks during the 2015/16 financial year.

102. A workshop for the NHS 24 Board was held in February 2015, which assessed how the Board receives assurance on the adequacy of current risk management arrangements and how this links to the wider governance framework. A number of actions were taken from this event, with a follow-up session scheduled for 2016/17.

103. Overall, we found NHS24's risk management arrangements to be adequate. Continued efforts are being made to build upon the risk

management model currently in place, refining and enhancing where needed.

104. The *Future Programme* section of this report addresses the specific risk management arrangements in place associated with the Future Programme.

Internal audit

105. An effective internal audit service is an important element of NHS24's governance arrangements. NHS24'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.

106. The internal audit plan for 2015/16 was largely delivered in line with the original plan. There were 12 reviews identified within the original plan, one carried forward from 2014/15 and a further review added to the 2015/16 scope during the year. During the year, the decision was taken to defer two reviews to 2016/17. The Audit & Risk Committee is aware of these deferrals and has taken these factors into account when considering the 2015/16 annual report and accounts, including and Governance Statement.

107. The internal auditor has issued a "generally satisfactory with some improvements required" overall opinion for 2015/16. The opinion concludes that "*Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control which potentially put the achievement of objectives at risk. Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.*"

108. We are satisfied that this conclusion is not inconsistent with our own audit findings.

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

109. In our opinion NHS24'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.

Fraud and irregularity

110. In accordance with the Code of Audit Practice, we have reviewed NHS24's arrangements for the prevention and detection of fraud and irregularities. During the year we have found NHS24's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

111. As reported in our Interim Report, we undertook a follow-up review on NHS24's National fraud Initiative (NFI) during the year and found the arrangements in place to be satisfactory. See paragraphs 115 to 117 below for further details.

Review of the Governance Statement

112. We have reviewed the Governance Statement and have found that it complies with the relevant guidance as issued by the Scottish Government and the Governance Statement Good Practice Note as recently issued by Audit Scotland.

113. The coverage of the Governance Statement is considered appropriate, and specifically, observes:

- the number of leadership changes within the organisation in year;
- the significant operational, reputational and financial issues faced by the organisation, as a result of the Future Programme withdrawal; and
- the ongoing refinements being made to current risk management arrangements.

114. We have also found that the processes and sources of assurance used to prepare the statement are reasonable and appropriate.

National Fraud Initiative

115. The NFI is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error.

116. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. This produces 'matches'. Bodies investigate these matches and record appropriate outcomes based on their investigations.

117. During the 2015/16 audit, we conducted a follow-up review on NHS24's arrangements over NFI and found these to be satisfactory. NHS24 has completed reviews of 49% of recommended matches with a further 7% being actively investigated and awaiting inter-board responses.

6

Value for Money

Value for money

Introduction

118. Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered. Specifically for NHS24, focus has remained on maximizing efficiency and effectiveness in order to improve performance across all areas of frontline operations.

Overall conclusions

119. We have reviewed the processes and procedures in place within NHS24 in setting and monitoring key performance indicators (KPIs) during the financial year. We have verified performance statistics as disclosed within the Performance Report to underlying audit evidence to confirm accuracy of disclosures, with no significant observations to note.

NHS24 has appropriate performance management arrangements in place

120. In line with SGHSCD guidance, performance is reported against a LDP range of measures, including Health, Efficiency, Access and Treatment (HEAT) targets, internal standards, Quality measures and out of hours primary care. An update on performance is presented to each Board meeting.

121. Performance, in accordance with the LDP, is reported using the red, amber, green (RAG) rating, with detailed narrative explanations given on an exception basis for all red or amber ratings. For each measure, the performance report:

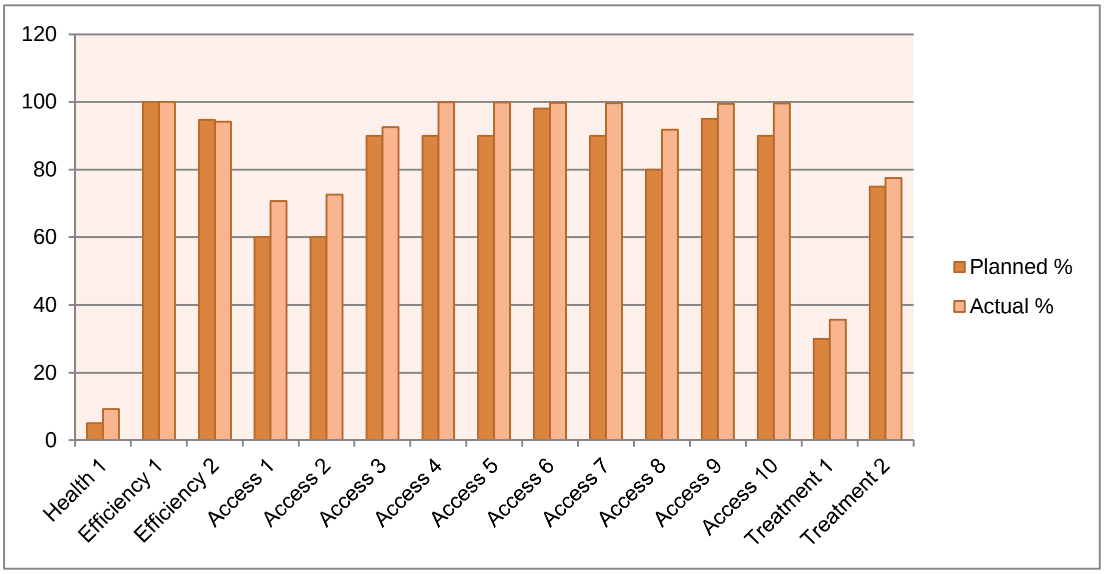
- gives a delivery plan objective;
- gives a SMART objective;
- charts planned versus actual performance;
- maps the trend in performance since April 2015; and
- provides comments on an exception basis.

14 out of 15 KPIs met in 2015/16

122. 14 out of the 15 KPIs set for 2015/16 have been satisfactorily met. The sole KPI that was not met was narrowly missed: the objective was to maintain staff attendance at an average of 94.75% throughout 2015/16, and actual performance derived an average of 94.21% This is a slight deterioration on last year's actual of 94.77%

123. A summary of actual performance against planned performance for all 15 indicators is presented within the chart below. For further detail regarding the smart objectives set, please refer to NHS24's Annual Report and Accounts for the year ended 31 March 2016.

Comparison of actual performance against planned performance for 2015/16



Looking forward

124. The Director of Finance and Performance has initiated a review of corporate performance reporting within NHS24. Recommendations for improvement will be considered imminently by the EMT and presented to the Board for approval.

125. The current reporting focusses on a listing of quantitative measures. The Director of Finance and Performance is seeking to improve current reporting to integrate emerging patient safety matrix work with the individual LDP target areas to create more meaningful statements on performance and their impact on patient safety and patient experience.

126. The revisions made to reporting structure and content will be subject to review as part of our 2016/17 audit.

7

Future Programme

Future Programme

Introduction

127. In 2011 NHS24 embarked on an ambitious and complex programme through which it planned to transform how it provided its patient care services.

128. The original programme to procure and implement a new call handling and decision support system - the Strategic Frontline Application (SFLA) – was combined in 2012 with a Service Redesign Programme to form the Future Programme.

129. Following several aborted attempts to implement the new technology, a fresh attempt was scheduled for October 2015. We have provided comments in our Annual Reports since 2013 on the challenges faced by the Future Programme and summarise below the work undertaken during the past year and provide comments on the latest position.

Background

130. Following the completion of a detailed implementation, including system and user acceptance testing and staff training, the system went live on 28 October 2015.

131. In the period during which GP practices are normally open (the "in-hours" period) the system was stable. However, shortly after the "out of hours" period began, a significant database issue arose resulting in a major incident being called and the service reverting back to the previous support system.

132. After the cause of the above defect was identified and resolved, the system was relaunched on 3 November 2015. This relaunch took place mid-week to minimise the impact of peak calls. After six days, the EMT met to discuss service performance as performance levels had fallen dramatically as staff had struggled to use the new systems and Partner Boards were expressing concerns.

133. A formal recommendation from the Medical Director which stated that, taking all the known "system" and "process" issues together, the safety of the service could not be guaranteed going into the next weekend and should be withdrawn, was supplemented by:

- an assessment by the Director of Finance and Performance that predicted service performance over the coming weekend and indicated that staff competence and confidence in using the system, call handling time and consequently the service access level would not materially improve; and
- a review of a series of rapid improvement activities which indicated that even with substantially improved support, any improvement in the shorter term would be insufficient to meet weekend requirements through at least the first half of the Winter period.

134. Following consultation with the EMT, the Chief Executive took the decision to withdraw the new system from 13 November 2015 to protect patient safety.

135. A series of reviews were immediately undertaken to clarify the reasons behind the aborted implementation resulting in a series of Lessons Learned reports being prepared. These highlighted the following key areas:

- The system needed further improvement to allow it to be used effectively within operational processes and workflows both internally and with Partner Boards;
- There was a lack of cohesion and joint working between the Future Programme and Service Delivery Teams at senior level;
- There were weaknesses in partner engagement at planning and testing stages resulting in incorrect assumptions in relation to integration with external processes;
- Weaknesses in training and familiarisation resulted in a lack of operational staff experience in the system significantly reducing staff confidence in the system and contributing to increased call duration;
- There were issues arising from the clinical content resulting in operational processes and workflow not working effectively;
- End-to-end user testing did not adequately simulate peak call volumes; and

- There was a lack of call centre implementation experience at senior management and Board level.

136. In looking forward to a safe and successful future implementation, NHS 24 identified four key work streams to be managed:

- Organisational Readiness;
- Partner Readiness;
- Technical assurance; and
- Contractual arrangements.

Organisational Readiness

137. An Interim Director of Operational Transformation, with significant call centre experience, was appointed in April 2016.

138. As he examined the underlying operational processes, he highlighted a previously formally unrecognised operational fragility within NHS24 which contributed to many of the issues experienced during the attempted implementation as operational pressures increased.

139. These issues needed to be addressed through the development of a new operating model and a wider programme of transformational change. Areas needing addressed included:

- More effective matching of resource to workforce plan;
- Building teams and a team ethos; and
- A review of core KPIs to support better performance management

140. The EMT has advised the NHS 24 Board that the required transformational change programme will not be completed in time to support a complete full national roll-out of the new systems in 2016.

Partner readiness

141. During the aborted implementation it became apparent that imperfect assumptions had been made in relation to how the new systems needed to integrate with external systems, particularly those relating to the out of hours service.

142. Of particular concern was the presentation to Partner Boards of clinical patient information contained within the Clinical Summary. This information is key to ensuring continuity of patient care.

143. This, combined with a perceived lack of communication, caused Partner Boards to raise serious concerns around the new systems and the impact the change was having on the demand they were experiencing for services. They also questioned the approach being adopted through which all Partners Boards are implemented at the same time.

144. Considerable efforts have been made to address these concerns including the inclusion of senior management from a number of Partner Boards in the revised project governance structures. Through the National Out of Hours Group, which represents all of the Partner Boards, agreement has now been reached on an approach through which end-to-end testing will be undertaken and going forward systems will only be approved through a joint sign off.

Technical assurance

145. The lessons learned exercise identified 104 functional alterations needed to allow the system to better meet operational requirements. Of these, only ten required changes to the underlying application code with the remainder achieved through changes in system configuration.

146. However, during further testing in April 2016 a system incompatibility was identified that had been experienced intermittently during testing in the 2015 failed implementation but had not previously been specifically addressed. This also raised concerns about the overall integrity of the infrastructure and applications.

147. To provide additional technical assurance and support to the Programme Board, a Technical Assurance Group (TAG) was formed comprising senior eHealth and IT Directors from Greater Glasgow and Clyde Health Board, Scottish Government eHealth Directorate and NHS National Services Scotland.

148. The TAG has provided technical advice and support in analysing and resolving the above compatibility issue and provided oversight in relation to the system interfaces with Partner Board systems.

149. Working with the Future Programme team, the TAG has also recommended that a series of

regression tests be successfully completed to ensure overall system integrity prior to any future implementation attempt.

Contractual arrangements

150. In preparation for the October 2015 implementation it was discovered that there were limitations in the contractual provisions in place in relation to the provision of "post go-live" application support. Having these arrangements was a pre-requisite if the implementation was to go ahead as planned in October 2015.

151. As highlighted in our report last year, the contractual arrangements with Capgemini as application provider and BT as "prime" contractor were found to be flawed and needed to be substantially revised to provide all parties with clarity on relative roles, responsibilities and commercial liabilities.

152. The original concept was that during the development phase NHS24 would have a direct contractual relationship with Capgemini for the application and a separate direct contract with BT for the required infrastructure. Once the system went live BT would take over responsibility as Prime Contractor with Capgemini providing application support as a subcontractor to BT. However, it became clear that, as the contract in relation to the application was subject to multiple Change Control Notices, these had not been reflected in the post go-live arrangements between BT and Capgemini resulting in flawed contractual arrangements for post go-live support. There were also issues of interpretation in relation to the opening position for both contractors as at the contract signing date.

153. While detailed negotiations were held between all parties in the run up to the October 2015 go-live date, full and formal agreement on the contractual changes required was not reached. Following advice from the CLO, it was agreed that a Letter of Intent would be signed between all parties incorporating the principles which had been agreed to provide the minimum contractual framework required to allow the implementation to go ahead with the expectation that full contractual arrangements would be finalised within the next few months.

154. Despite the implementation being aborted by NHS24, the support arrangements have continued. Negotiations have allowed some of the application changes needed following the aborted implementation to be undertaken within these support arrangements. However, it should be noted that any substantial future developments will need to be covered by additional Change Control Notes.

155. Negotiations have therefore continued with the aim of finalising direct contracts with each of BT and Capgemini by the end of September 2016.

156. Meanwhile the contract with Capita in relation to the current decision support system PRM is intended to be extended to January 2018 thereby increasing further the double running costs associated with this project.

Revised implementation approach

157. Previously NHS24 has insisted that, in order to protect patient safety, the only effective implementation approach was to implement the full system on a national basis. This was primarily to address the issue of "return callers" who may return to the service but from across geographical boundaries.

158. Further work has now been completed through which the scale of this issue has been examined using detailed evidence from the current call handling system. The conclusion of this review is that it would be possible to create a "model office" through which the new systems could be introduced for a single "isolated" Partner Board for a period of time.

159. This would allow the new systems and revised operating arrangements to be thoroughly tested within "live" conditions with the risks associated with return callers managed through additional business processes. It would also provide robust evidence to help establish greater confidence in the systems prior to a national roll-out.

160. In addition, it was found that some Planned Care services, which use the new customer handling systems but do not rely on the decision support systems, could be introduced independently from other services.

161. At a special Board meeting held on 29 June 2016, the NHS24 Board approved this revised implementation approach subject to sufficient scrutiny with the aim of the Planned Care services being implemented in 2016 and the initial implementation within Unscheduled Care services taking place in spring 2017. Full national roll-out for Unscheduled Care services is planned for Autumn 2017. This will now be subject to detailed planning and consultation with internal and external stakeholders.

Governance

162. To address weaknesses highlighted during the lessons learned review in relation to the lack of relevant experience at senior management level, and the need for wider scrutiny and challenge, a number of additional Scrutiny Committees have been formed. These include:

- An Independent Contact Centre Specialist Advisor to provide independent advice to the NHS24 Board;
- A User Reference Group comprising managers and staff not directly involved in the implementation process to act as a critical friend;
- The TAG to provide independent scrutiny and challenge in relation to technical aspects of the implementation; and
- Independent Advice and Assurance Group formed to provide advice to the EMT and assurance to the Scottish Government.

163. In addition the following two Scrutiny groups are in the process of being established:

- A Partner Assurance Group to provide oversight of the plans to implement the Future Programme on behalf of NHS Scotland Health Boards; and
- An Organisational Assurance Group to provide oversight of the organisation improvement plan and the aligned plan for technical staff readiness to implement the Future Programme.

164. It is worth noting that with the exception of the Independent Contact Centre Specialist Advisor, all of the other scrutiny elements report to the Programme Board which is chaired by a Non Exec Director and which in turn reports to the full NHS24 Board.

165. As part of the refreshing of the overall project to incorporate the organisational changes required, we would recommend the above governance arrangements are also reviewed to ensure that they remain relevant and that the NHS24 Board is receiving sufficiently independent assurance in relation to the progress of the revised implementation programme, once established.

Management action plan point 4

Revised business case

166. The original SFLA programme was subject to a Business Case in 2011 which identified an investment of £73.432 million. No business case was prepared when the SFLA was combined with the Service Redesign Programme to form the Future Programme. While the costs of the Future Programme have now risen to an estimated £131.2m no revision to the Business Case has been prepared although the NHS 24 Board has agreed on at least four separate occasions to support the continued implementation of the Future Programme.

167. Given the significant problems with the implementation, the overrun in terms of cost and changes to the original scope of the system since the original specification was drafted, it is clear that the original Business Case has not been met and that value for money will not be achieved in this implementation. Looking forward to the period once the new system is operating the focus will be on the benefits to be realised and the associated running costs over the following ten years.

168. As the need to address underlying organisational weaknesses has emerged, so the strategic opportunities offered by the wider change management programme have been recognised. In parallel with the planning for the revised system implementation, work has begun to develop a strategy and revise corporate objectives for NHS24 through which it will set out how the new facilities and revised organisational capabilities can deliver more as an important national asset to the whole of the NHS and wider public service.

169. As part of this strategic revision process we would recommend that NHS24 agrees a Business Case which covers the ten year operational period. This should reflect the revised scope of the programme, the costs involved and the initial work undertaken on benefits realisation.

170. The Business Case would also allow the NHS24 Board to set out how it intends to manage the real and continuing risks associated with this challenging programme including:

- Any additional costs arising from the development and introduction of the new operational model;
- Any additional costs which may arise from unforeseen system developments required to support the revised operational model; and
- Contingency plans for any failure to conclude satisfactory direct contracts with system suppliers.

Management action plan point 5

Implications for the wider Public Sector

171. As highlighted in our report last year, the experiences of NHS24 provide key lessons which need to be learned by the wider Public Sector. The failure to successfully deliver the Future Programme has further highlighted the need to recognise the substantial impact that technology based programmes have on the operational efficiency and effectiveness of an organisation.

172. The past year has demonstrated the clear need to fully and openly assess the current state of such operations prior to implementing any new technology if, as NHS24 has demonstrated, further delays and costs are to be avoided.

173. Similarly, the impact on wider stakeholders can also substantially influence the success or failure of such programmes requiring clear and effective communication and collaboration to be included in the detailed planning if shared benefits are to be achieved.

8

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

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. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual report and accounts 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.

Action plan grading structure

To assist NHS24 in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior 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

Action plan point	Issue & Recommendation	Management Comments
1. Fully depreciated non-current assets **Rating** **Grade 2** **Paragraph ref** **47**	**Observation** 45% of the gross book value of non-current assets (PPE and intangibles) as at 31 March 2016 relates to assets that remain in use yet have been fully depreciated or amortised. However, the client has advised that following successful roll-out of the Future Programme, NHS24 will hold very few IT assets on their register, and therefore this percentage will be significantly reduced. **Recommendation** The useful economic lives applied to all asset categories should be reviewed to ensure that they remain appropriate.	The majority of assets which have been fully depreciated or amortised will be disposed following the successful roll-out of the Future Programme. Any remaining assets with a zero net book value will be assessed following the implementation of the Future Programme to see if it would be appropriate to amend the useful economic lives. **Responsible officer** Deputy Director of Finance

Action plan point	Issue & Recommendation	Management Comments
2. Non-current asset tagging **Rating** **Grade 2** **Paragraph ref** **47**	**Observation** All assets included within the asset register are allocated a unique reference number. However the physical assets are not individually labelled. It is therefore not possible to undertake a physical verification of assets from the register to the floor (or vice versa), without the involvement and knowledge of the relevant facilities or IT personnel. **Recommendation** To prevent against the possible misappropriation of assets, we recommend that new assets acquired, across all sites, are appropriately labelled when brought into use to create a direct link between the fixed asset register and the physical assets.	The use of asset tagging will be considered once the Future Programme is operational and the number of assets on the asset register is at a steady state. A number of the remaining assets are intangible which are not able to be tagged and the location of other assets in plant rooms and under floors will still require the involvement of facilities or IT personnel. **Responsible officer** Deputy Director of Finance

Action plan point	Issue & Recommendation	Management Comments
3. Financial strategy: scenario planning **Rating** **Grade 3** **Paragraph ref** **82**	**Observation** Significant financial challenges placed on the Scottish public sector remain, and it is recognised that there continues to be limited information available to NHS24 beyond the short term regarding the certainty on-going levels of funding. **Recommendation** NHS24 should seek to undertake scenario planning, focussing on priorities, as part of their long-term financial strategies. This should include making assumptions regarding varying levels of future income, expenditure and activity and outlining options based on each scenario. This should help to identify potential solutions to difficulties arising from variations in levels of future funding, whilst maintaining service levels. In the absence of scenario planning, there is a risk that public bodies continue taking a short-term approach, hindering their ability to derive meaningful five year plans.	As part of the financial planning LDP process, NHS 24 run a number of scenarios to reflect the potential plans and financial outcomes associated with each. These are considered by the Executive Management Team and submitted to the Board for approval. Whilst the Scottish Government LDP model does not allow for submission of all the scenarios, NHS 24 does create these in the background and submits the final version that is approved by the Board. **Responsible Officer** Director of Finance & Performance

Action plan point	Issue & Recommendation	Management Comments
4. Future Programme: Governance **Rating** **Grade 5** **Paragraph ref** **165**	**Observation** Significant changes have been put in place since October 2015 in the scrutiny and governance of the Future Programme. A number of groups are feeding into the NHS 24 Board's decision making process and further groups are being put in place. **Recommendation** Given the significant organisational changes and the changes in scrutiny and governance surrounding the Future Programme we would recommend that these arrangements are reviewed on a regular basis over the next 18 months to ensure that they remain relevant and that the NHS24 Board is receiving sufficiently independent assurance in relation to the progress of the revised implementation.	The recent changes in scrutiny, governance and assurance arrangements will be continuously reviewed to ensure that the EMT and the NHS 24 Board is receiving sufficiently independent assurance in relation to the revised implementation. **Responsible Office** Chief Executive

Action plan point	Issue & Recommendation	Management Comments
5. Future Programme: Business Case **Rating** **Grade 5** **Paragraph ref** **170**	**Observation** Whilst the original Business Case has not been achieved, once the new system has been implemented, looking forward to the period once the new system is operating NHS 24 must focus on the benefits to be realised and the associated running costs over the following 10 years. **Recommendation** We recommend that NHS24 agrees a Business Case which covers the 10 year operational period. This should reflect the revised scope of the programme, the costs involved and the initial work undertaken on benefits realisation.	NHS 24 will focus on the development of a business case which focuses on driving best value throughout the 10 year operational period and will ensure this business case links to and informs the emerging revised NHS 24 strategy. **Responsible Officer** Chief Executive

Appendix 2: Unadjusted differences

Board representations

We have requested that the signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified two unadjusted differences during our audit work. These differences are not considered to be material to the financial statements individually or in aggregate. The unadjusted items are included within the representation letter and shown below:

Unadjusted differences	SoCTE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Receivables			50	
Provisions				50
Being the settlement of a clinical and medical provision after year end for an amount in excess of that provided for.				
Total core expenditure (SORO)	11			
Total non-core expenditure (SORO)		11		
Being the miscalculation of the AME Creation of Provisions figure resulting in an understatement of core expenditure and an overstatement of non-core expenditure.				
Net impact on income / expenditure	**£nil**			

Appendix 3: Scope of the audit

An overview of the scope of our audit

Our External Audit Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to NHS24. 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.

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. No additional significant risks were identified during our audit work.

The significant risks that had greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *Our assessment of risks of material misstatement* within section 2 of this report. The audit response to each of these risks was designed in the context of the financial statements as a whole, and consequently, we do not express an opinion on individual risks.

Our standard audit approach is based on performing a review of the key accounting systems in place, 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, as set out below.

Our application of materiality

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 annual report and accounts.

Our initial assessment of materiality for the annual report and accounts during our planning work was £1.3 million. On receipt of the draft 2015/16 accounts, we revised this assessment to £1.156 million. Our assessment of materiality is set with reference to a range of benchmarks (including total expenditure). We consider this to be the principal consideration for the users of the accounts when assessing the performance of NHS24.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. The performance testing thresholds, as set at the planning stage of the audit, are set out in the table below:

Area risk assessment	Weighting	Performance materiality (£'000)
High	45%	520
Medium	55%	636
Low	70%	809

Reporting

We have reported all misstatements identified through our audit that fell within one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £1,000, being our clearly trivial threshold; and
- Other misstatements below £1,000 that we believe warrant reporting on qualitative grounds.

We also report to the Audit & Risk Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Appendix 4: Respective responsibilities of NHS24's Board and the Auditor

Responsibility for the preparation of the annual report and accounts

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 annual report and accounts, the Board is responsible for:

- observing the financial statements direction issued by Scottish ministers, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a constant basis;
- making judgements and estimates that are reasonable and prudent;
- stating whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have been followed and disclose and explain any material departures; and
- preparing the financial statements on a going concern basis.

The Board is also responsible for:

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

Auditor responsibilities

We audit the annual report and accounts 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 Ministers of the state of the boards affairs as at 31 March 2016 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 2015/16 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 Minister;
- 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 annual report 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 of the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the 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 NHS24'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 NHS24'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; • NHS24's financial position.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

Scott-Moncrieff
business advisers and accountants