



Scott-Moncrieff
business advisers and accountants

NHS 24

Interim audit report

For the year ended 31 March 2017

March 2017

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Introduction

Introduction

1. Our External Audit Plan 2016/17 was approved by the Audit & Risk Committee in February 2017.
2. The Plan summarised the work we will carry out as part of our 2016/17 external audit of NHS 24. The core elements of our work include:
 - an audit of NHS 24's 2016/17 financial statements and related matters;
 - an interim audit, taking into consideration the work of internal audit, on accounting systems, corporate governance arrangements and the Organisational Improvement Programme;
 - a review of NHS 24's arrangements as they relate to the following four dimensions of wider-scope public audit; governance and transparency, financial management, financial sustainability, and value for money; and
 - any other work requested by Audit Scotland, for example, local performance audit work.
3. This report concludes our 2016/17 interim audit of NHS 24 and summarises the results of our review of NHS 24's key financial systems.
4. The report has been discussed and agreed with the Director of Finance and Performance.
5. While this report is addressed to the Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Reporting to those charged with governance

6. ISA 260 (Communication of audit matters with those charged with governance) requires the auditor to make those charged with governance or management aware, as soon as practicable, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal financial controls which have come to the auditor's attention.
7. A material weakness in internal control is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

8. The results of our audits of the internal financial control framework at NHS 24 are included in management reports submitted following our audit visits and should therefore be seen as meeting the requirements of ISA 260.

Conclusion

9. Our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over NHS 24's key financial systems. We consider these systems to be well designed.
10. We have performed our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs).
11. We would like to thank all members of NHS 24's management and staff who have been involved in our work for their co-operation and assistance during our interim audit visit.

Feedback

12. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments:
<https://www.surveymonkey.co.uk/r/S2SPZBX>



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Summary of findings

Summary of findings

Review of NHS 24's key financial systems

13. Auditors are required to carry out the audit of financial statements in accordance with ISAs. To comply with the requirements of the ISAs we consider NHS 24's key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
14. During our interim audit we have reviewed NHS 24's key financial systems and tested a sample of internal financial controls to establish whether they provide adequate assurance to support the preparation of the annual financial statements.
15. Our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over NHS 24's key financial systems. We consider these systems to be well designed and operating effectively.

Preparatory final accounts audit work

16. During our interim audit we undertook preparatory work for our final accounts audit. This included the following audit work:
 - VAT submissions testing;
 - Income substantive testing;
 - Expenditure substantive testing;
 - Testing of the drawdown from Scottish Government Health and Social Care Directorates;
 - Circular testing; and
 - Review of Board and committee minutes.
17. We identified no issues from this testing. We will complete our testing on these areas as part of our final audit and will report our findings from this work within our Annual Report.
18. We have also considered NHS 24's self-evaluation arrangements for financial management; financial sustainability; governance and transparency; and value for money. We have not identified any further risks at this stage but we will review and update this assessment if we identify any issues during our subsequent audit work.

19. Based on our previous knowledge and a review of the self-evaluation questionnaire, successful control of remaining cost commitments on the IT strand of the Organisation Improvement Programme (previously referred to as the Future Programme) is critical for the financial sustainability of NHS 24.
20. In response to this risk we will review the IT project's actual costs incurred during 2016/17 against budget. We will also consider projected future expenditure in this area.

Follow up of prior year audit recommendations

21. Our 2015/16 audit identified five low to very high risk findings. As part of our interim audit, we have followed up the recommendations raised and the actions taken by management in response to these. These recommendations, as well as a status update, are shown in the table below. We will update the progress against these recommendations as part of our final audit in May 2017.

Financial statements and the 2016/17 audit process

22. Audited NHS board financial statements must be submitted to the Scottish Government by 30 June 2017. We will continue to liaise with management to plan for our year-end audit and agree respective expectations and timetables. Our final audit visit is planned to start in May 2017.

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Prior year action plan

Prior year action plan

1. Fully depreciated non-current assets	
Observation	<p>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.</p> <p>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.</p>
Recommendation	<p>The useful economic lives applied to all asset categories should be reviewed to ensure that they remain appropriate.</p> <p>Grade 2</p>
Original management response	<p>The majority of assets which have been fully depreciated or amortised will be disposed of following the successful rollout 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.</p> <p>Responsible officer: Deputy Director of Finance</p>
Management response update	<p>A review of useful economic lives will take place following implementation of the new technology platform.</p>
Completion date	<p>31 March 2018</p>
2. Non-current asset tagging	
Observation	<p>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.</p>
Recommendation	<p>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.</p> <p>Grade 2</p>
Original management response	<p>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.</p>

2. Non-current asset tagging

	Responsible officer: Deputy Director of Finance
Management response update	The use of asset tagging will be considered following implementation of the new technology platform.
Completion date	31 March 2018

3. Financial strategy: scenario planning

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	<p>NHS 24 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.</p> <p>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.</p> <p>Grade 3</p>
Original management response	<p>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.</p> <p>Responsible officer: Deputy Director of Finance</p>
Management response update	Scenarios have been developed as part of the 2017/18 – 2021/22 LDP process and will be considered by the NHS 24 Board.
Completion date	31 March 2017

4. Future Programme: Governance

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

4. Future Programme: Governance

	<p>independent assurance in relation to the progress of the revised implementation.</p> <p>Grade 5</p>
Original management response	<p>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.</p> <p>Responsible officer: Chief Executive</p>
Management response update	<p>The Organisation Improvement Programme governance framework involves 3 levels of assurance; executive management control and reporting, functional oversight and governance, and independent external review. This framework which delivers an effective framework of controls and assurance to the NHS 24 Board was approved by the Board at its meeting on 2 February 2017.</p>
Completion date	Complete

5. Future Programme: Business Case

Observation	<p>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.</p>
Recommendation	<p>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.</p> <p>Grade 5</p>
Original management response	<p>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.</p> <p>Responsible officer: Chief Executive</p>
Management response update	<p>External consultancy support has been secured to support the Director of Finance & Performance with the development of the business case which will consider the impact of the Organisational Improvement Programme.</p>
Completion date	31 May 2017



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