



Scott-Moncrieff
business advisers and accountants

NHS 24

2016/17 Annual Audit Report to the Board of
NHS 24 and the Auditor General for Scotland

June 2017

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Key messages

Annual accounts

NHS 24 approved the annual accounts for 2016/17 on 22 June 2017 and the accounts were submitted, together with this report, to the Scottish Government and Auditor General by the deadline of 30 June 2017. We have reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters within our independent auditor's report. We have also reported that there were no matters which we were required to report by exception.

Wider Scope

Financial management

- NHS 24 has adequate and effective arrangements in place for managing its financial position and use of resources.
- We have evaluated NHS 24's key financial systems and internal financial controls and determined these are adequate to prevent material misstatements in the annual accounts

Financial sustainability

- There are adequate arrangements in place for financial planning and monitoring.
- There remains a great deal of uncertainty around the new technology platform. There remains a high risk of not achieving savings targets particularly if costs associated with the project escalate due to further delays.

Governance & transparency

- Our work on corporate governance focussed on reviewing NHS 24's arrangements to ensure effective systems are in place regarding internal control, prevention and detection of fraud and irregularity and standards of conduct.
- With only four months to complete the national rollout of the new Model Office and supporting technology, it is essential that focus is maintained on key risks associated with this cornerstone of the Organisational Improvement Programme.
- As the Organisational Improvement Programme moves into the next phase of its delivery the governance structure of this Programme needs to be reviewed to ensure it remains effective.
- Governance arrangements at NHS 24 were found to be satisfactory and appropriate.

Value for money

- An established and appropriate performance management framework is in place at NHS 24.
- There are significant changes underway and NHS 24 is taking action to assess whether current performance measures remain appropriate.
- To ensure NHS 24, and the wider public sector, can learn from the experiences of the past 7 years, and to illustrate how the new Organisational Improvement Programme has reflected on these lessons, a comprehensive lessons learned exercise should be undertaken with the results shared to highlight how key issues have arisen and how they have been resolved.

Key facts

- All key financial targets were met in 2016/17
- The revenue resource limit was underspent by £0.076million (0.1%)
- The capital resource limit was underspent by £0.1million
- Costs associated with the Organisational Improvement Plan were £9.569million in year and there is a further £5.7million cost budgeted in 2017/18
- A breakeven position is forecast in each year to 2019/20 with a small surplus planned in 2020/21 and 2021/22
- 15 of the 18 key performance measures were on target for 2016/17.

Conclusion

This report concludes our audit for 2016/17. 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.

Scott-Moncrieff

June 2017

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Introduction

Introduction

1. This report summarises our findings from the 2016/17 audit of NHS 24.
2. We outlined the scope of our audit in our external audit plan, which we presented to the audit committee on 7 December 2016. The core elements of our audit work in 2016/17 have been
 - an interim audit of NHS 24's key financial systems and governance arrangements;
 - an audit of NHS 24's 2016/17 annual report and accounts, including a review of the Governance Statement;
 - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money;
 - consideration of the Board's arrangements for taking part in the National Fraud Initiative data-matching exercise; and
 - consideration of the local impact of the national performance report [The Role of Boards](#).
3. NHS 24 is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report 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
4. We discussed and agreed the content of this report with the Director of Finance and Performance. We would like to thank all management and staff for their co-operation and assistance during our audit.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help NHS 24 assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
7. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX
8. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website. www.audit-scotland.gov.uk.

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Annual accounts

Annual accounts

Introduction

9. NHS 24's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of NHS 24 and the auditor in relation to the financial statements are outlined in Appendix 3.

Overall conclusion

Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 were approved by NHS 24 on 22 June 2017. We have reported within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity;
 - an unqualified opinion on other prescribed matters.
11. We are also satisfied that there are no matters which we are required to report to you by exception.

Administrative processes were in place

12. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.
13. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 30 June 2017 deadline.

Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline three significant below

Audit Risk 1: New technology platform

NHS 24 has invested extensively in the delivery of a new technology platform over the past five years. Previously referred to as the Future Programme this is now one strand of the Organisational Improvement Programme (OIP) which is being implemented within the organisation. The current forecast implementation costs for the technology part of the OIP which amount to £131.2million are £55.4million higher than the original projection of £75.8million. The delay in implementing the new technology platform 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 new system would be fully operational by 30 June 2016. However, in April 2016, the NHS 24 Board was advised that the June 2016 launch would not be achieved as a result of a number of significant issues emerging within the programme. This was agreed with NHS 24 on 29 June 2016.

The financial plan assumed costs of £7.1million in 2016/17 to implement the system. The forecast costs later increased to £10.1million, primarily due to additional double running costs due to the decision to move to a phased implementation throughout 2016/17. To mitigate this issue NHS 24 planned to reduce its corporate reserve, release additional monies from specific departments, and re-prioritise in-year allocations.

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 2016/17 and beyond, including the achievement of a breakeven position against its Revenue Resource Limit (RRL).



15. NHS 24's 2016/17 revised budget of £10.1million for the technology platform included double running costs of the system and additional implementation costs as a result of the re-phasing of the

planned implementation. The 2016/17 budget was subsequently reduced to £9.569million as a result of the re-scheduled implementation date of the NHS Ayrshire and Arran Model Office in May 2017. £0.545million of the Model Office's implementation costs were rescheduled to 2017/18 and the funds were returned to Scottish Government Health and Social Care Directorate (SGHSCD) as part of a £1.05million brokerage repayment in 2016/17.

16. We have reviewed NHS 24's LDP 2017/18 and we are satisfied that this includes provision of £5.7million for double running and implementation costs in respect of the new technology platform. It is noted that the costs are based on an implementation date of December 2017. NHS 24 incurs additional running costs of £0.5million for every month the implementation is delayed therefore any further delays would have a significant impact on NHS 24's ability to meet their financial targets.

17. Over the next four financial years NHS 24 is due to repay £19.606million of brokerage repayment

	2017/18	2018/19	2019/20	2020/21
Brokerage repayment	£0.474million	£6.377million	£6.922million	£5.833million

NHS 24 will have to identify efficiency savings to ensure brokerage repayments are delivered.

18. Note 6 'Administration costs' within the accounts includes all costs associated with the technology platform. The costs reported in this note all direct costs of the technology platform 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 also disclosed within note 6.

19. We have audited the technology platform costs incurred in year. We performed analytical procedures and substantive testing. We are satisfied from this work that costs associated with the programme have been correctly classified and accounted for correctly.

20. We have reviewed the draft annual report and accounts to consider whether the progress of the technology platform during the financial year and up to the date that the accounts are approved by NHS 24 has been sufficiently and appropriately reflected. We are satisfied with the disclosures made.

21. Our specialist project management consultants are currently completing a further status review of the technology platform, building upon their assessments conducted during 2013/14, 2014/15 and 2015/16. The results of this work will be incorporated within the final Annual Report to be presented to Audit Scotland along with the signed accounts prior to 30 June 2017.

Audit Risk 2: Management override of controls

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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.



22. 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.

Audit Risks 3: Fraud in revenue recognition

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 NHS 24 could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



- 23.** Within our audit plan, we rebutted the risk of fraud in revenue recognition is material to the annual accounts. We have reviewed this position throughout the audit and have concluded that this position remains appropriate.

Our application of materiality

- 24.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
- 25.** Our initial assessment of materiality for the annual report and accounts during our planning work was £1.3 million. On receipt of the draft 2016/17 accounts, we reassessed materiality but maintained the £1.3 million threshold. Our assessment of materiality is set with reference to a range of benchmarks. In particular, the performance against RRL is one of the principal considerations for the users of the accounts when assessing the financial performance of NHS 24. We consider that our updated assessment has remained appropriate throughout the audit.
- 26.** We set a performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement

Area risk assessment	Weighting	Performance materiality
High	40%	£0.52million
Medium	55%	£0.65million
Low	70%	£0.91million

- 27.** We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements over £26,000;
 - Misstatements below £26,000 we believe warrant reporting on qualitative grounds.

Other matters

- 28.** We identified one low risk matter relating to missing information in our testing of employee details back to contracts. We have reported on this fully within Appendix 1 to this report.
- 29.** In addition we have noted that actions relating to the tagging of non-current assets and assets which are fully depreciated which were highlighted as part of our 2015/16 report remain outstanding as at the time of reporting. We have included full details of the issues in Appendix 1.

Other audit adjustments identified

30. We identified one audit adjustment, which is outlined in appendix 2, and minor disclosure and presentational adjustments that were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on NHS 24's outturn for the year.

Board representations

31. We have requested that the Board present a signed representation letter, covering a number of issues, to us at the date of signing the financial statements.

An overview of the scope of our audit

32. We detailed the scope of our audit in our external audit plan. We presented the plan to the Audit and Risk Committee in 7 December 2016.
33. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
34. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
35. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Accounting and Internal Control systems

36. NHS 24 has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in NHS 24's accounting and internal control systems during our final audit.

The Governance Statement complies with the Scottish Ministers' guidance

37. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.
38. We consider the coverage of the Governance Statement to be broadly in line with expectations including issues associated with the new technology platform and NHS 24's ongoing work in relation to risk management.
39. We noted that internal audit had reported high risk findings in relation to Business Continuity and this was not included in the draft Governance Statement. The Governance Statement presented to the Board has been revised to include details of internal audit's findings.
40. The disclosures in the Governance Statement reflect internal audit's conclusion for 2017/18.
41. We are satisfied that the disclosures in the Governance Statement are appropriate and in line with our findings.

Regularity

42. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Qualitative aspects of accounting practices and financial reporting

43. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the significant accounting policies, which are disclosed in the financial statements, to be appropriate to NHS 24.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions 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 preparing the financial statements are considered appropriate. The principal areas of estimates and judgements have been asset depreciation and provisions for clinical and medical negligence and dilapidations. Where appropriate NHS 24 utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements 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 statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any significant 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

Overall conclusion

NHS 24 has effective arrangements in place for financial management and the use of resources

44. Overall, NHS 24 has effective arrangements in place for financial management and the use of resources. Our conclusion is based on a review of NHS 24's financial performance, underlying financial position, financial reporting and achievement of savings targets. Key elements of these areas are discussed in more detail below.

NHS 24's financial performance in 2016/17

NHS 24 met its key financial targets in the year

45. NHS 24 has to work within the resource limits and cash requirements set by the Scottish Government. As shown below, NHS 24 met all of its key financial targets in 2016/17.

Financial Target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	71,712	71,636	76	Yes
Non-core revenue resource limit	1,157	1,157	-	Yes
Capital resource limit	600	500	100	Yes
Cash requirement	73,667	73,667	0	Yes

A saving of £76,000 against total RRL despite ongoing pressures from the new technology platform

46. NHS 24 achieved a saving against its RRL of £76,000. This surplus is in line with the break even position forecast in the 2016/17 Local Delivery Plan (LDP).

47. The Local Delivery Plan which was presented to SGHSCD was based on the successful launch of the new technology platform by the end of June 2016. As discussed in section 2 of the report there were significant delays with the new technology platform which resulted in double running costs and additional pressures on the budget.

There was minor slippage on capital projects

48. NHS 24 also made a saving of £0.1million against its CRL of £0.6million and achieved its Cash Requirement target.

49. NHS 24 invested £0.5million into capital projects during the year. The variance against CRL was primarily due to slippage against the Property Improvement Programme

Efficiency savings

NHS 24 achieved its 2016/17 savings target

50. As part of NHS 24's 2016/17 financial plan, £3.315million of cash releasing efficiency savings was required. Of this total, £3.240million was to be recurring savings.

51. NHS 24 had achieved its overall savings target by February 2017. The vast majority of savings (£3.115million) were met through the Corporate Efficiency and Productivity Challenge and came from a range of cost reduction measures including a reduction in staff numbers to 1,006 whole time equivalent in line with NHS 24's 2016/17 workforce plan (2015/16: 1,078 WTE).

NHS 24 has effective budget setting and monitoring arrangements

52. We have considered NHS 24's system of budgetary control and financial management and did not identify any significant deficiencies.

53. NHS 24 has comprehensive financial regulations and policies in place which are subject to regular review by NHS 24 and were reviewed in 2016/17.

54. Financial monitoring reports are submitted to all meetings of NHS 24, Finance and Performance Committee and Executive Management Team.

55. Reports tend to be at a strategic level, but do provide sufficient explanations for any significant variances.

56. Throughout the year NHS 24 managed expenditure against the RRL to within 0.5% of the budgeted figures.

Prevention and detection of fraud and irregularity

57. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found NHS 24's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National fraud initiative

58. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of

Scottish public bodies and external auditors to identify fraud and error.

59. In 2016/17 NHS 24 submitted data in line with the NFI requirements by October 2016.

60. The current NFI exercise identified 307 matches for NHS 24, of which 85 were recommended for investigation. Due to circumstances outwith NHS 24's control, matches relating to payroll data were not released on a timely basis.

61. While NHS 24's overall arrangements have been satisfactory, the late release of payroll matches, have meant only 99 of the matches have been concluded upon to date with 208 matches still in progress.

62. The deadline for concluding the NFI exercise is 30 September 2017 and NHS 24 are confident the deadline will be met.

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Financial sustainability

Financial Sustainability

Overall Conclusion

NHS 24 has effective arrangements in place for financial planning and monitoring

63. Overall, NHS 24 has effective arrangements in place for financial planning and monitoring. However, there remains a great deal of uncertainty around implementation of the new technology platform and the assumptions relating to costs associated with the project remain a high risk to NHS 24.

Financial Projections and efficiencies

64. NHS 24's LDP forecasts a breakeven position for 2017/18 to 2019/20, with a surplus against RRL being generated from 2020/21. It is recognised this will be challenging to deliver for a number of reasons, including the double running costs and repayment of brokerage costs associated with the new technology platform.

65. In 2017/18 NHS 24 will be required to deliver efficiency savings of £3.235million, of which £2.607million (81%) is recurring.

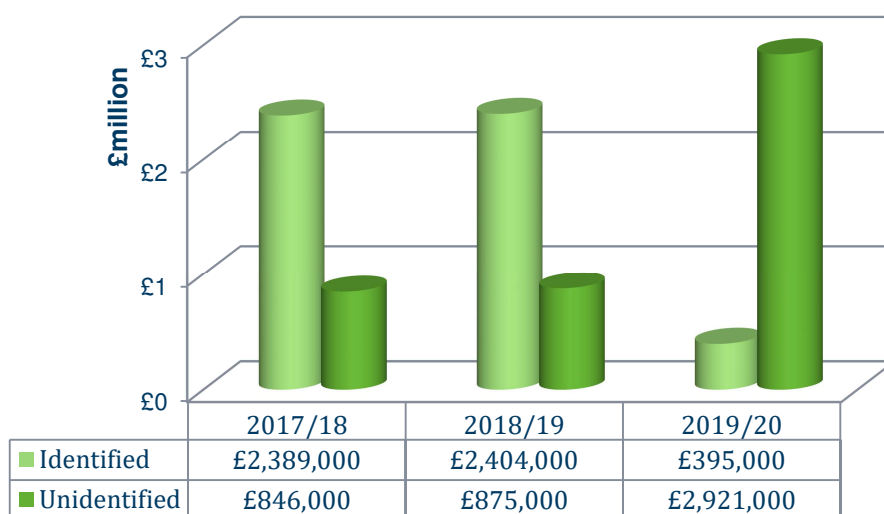
66. At the time of our audit, NHS 24 had identified proposals to achieve £2.4million of the

efficiency savings target for 2017/18. The proposed savings identified are:

- a reduction in depreciation;
- a reduction of 10% on all recurring budgets, excluding technology contracts, Health Information Services and Unscheduled Care Service; and
- a reduction against discretionary spend allocations from SGHSCD.

67. Of the proposed schemes £1.157million (48%) is identified as high risk with the remaining £1.232million classified as medium or low risk. Budget holders have developed action plans to ensure delivery of the savings targets. The Board receive regular reports throughout the year to monitor progress and ensure action is taken to address any forecast shortfall against the target.

68. Savings are required every year to 2021/22 to ensure a balanced position is achieved. Through the LDP, NHS 24 has calculated the efficiency savings required up to 2019/20. As NHS 24 moves to the longer term the proportion of unidentified savings becomes significantly higher, as shown in the graph below.



69. NHS 24 has recognised the proportion of unidentified savings as a significant risk to the delivery of their LDP and has noted that significant effort is being put into developing additional savings plans for the future.

Key assumptions and risks in the LDP financial plan

70. The key, high-level financial assumptions used by NHS 24 for 2017/18 are detailed in the table below:



	2017/18 uplift (%)
Revenue growth	1.0%
Pay Uplift (including National Insurance costs)	1.0%
Required efficiency savings	5.0%



71. These assumptions are broadly consistent with the rates applied by NHS 24 in previous years.

72. NHS 24 has recognised the limitations of the information available to them when projecting long term information and has undertaken scenario planning when creating the LDP. Through this exercise NHS 24 understands the implications if key assumptions vary from the plan.

73. The assumptions underpin the overall financial plan and include an assessment of risk associated with their assumptions. In addition to the pressures around generating efficiency savings noted above, NHS 24 has recognised a further area of high risk relating to the Organisational Improvement Programme, specifically the full implementation of the new technology platform. The 2017/18 LDP includes

double running and implementation costs of £5.7million based on an implementation date of December 2017. It is noted that double running costs are £0.5million per month and any delays to the new technology platform would have a significant impact on achieving the financial targets.

74. The full implementation of the new technology platform in 2017/18 generates significant uncertainty to financial planning. There will be pressure in 2017/18 to ensure the costs associated with the project do not escalate and NHS 24 operates within the RRL.

5

Governance & transparency

Governance & transparency

75. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. NHS 24 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

76. NHS 24 has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to the corporate governance framework in place, the information provided to the Board and committees and the risk management arrangements in place.

77. There is a separate section of this report to be provided which will provide detail on the governance arrangements relating to the new technology platform implementation.

Risk Management

78. A developed and integrated approach to risk management is a key feature of a robust system of internal control. There has been significant change to the risk management approach in year. NHS 24 reviewed its risk management arrangements in July 2016 and created a Risk Improvement Programme.

79. The Board have been heavily involved in the development of the revised approach to risk management. During 2016/17 two development days facilitated by PWC focused on the risk improvement agenda.

80. In December 2016, NHS 24 approved a Risk Appetite Statement: *'The Board will not accept risks that negatively impact or are in detriment to the quality, safety and effectiveness of patient care.'* In addition to this overall statement, risk appetite relevant to specific operational areas was agreed.

81. NHS 24 has made a good start to creating an improved approach to risk management, including the definition of its risk appetite and an improved risk register, which is presented to the Board and Audit and Risk Committee.

82. Further steps have been identified to progress the project, which includes:

- the development of a dashboard reporting tool;
- the development of a risk management improvement plan;
- the development of a risk management framework; and
- a plan for training and communication with regards to the revised framework.

83. We will revisit risk management in 2017/18 to review progress with the improvement programme.

Internal Audit

84. An effective internal audit service is an important element of NHS 24's governance arrangements. NHS 24's internal audit service is provided by PricewaterhouseCoopers (PwC). During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of NHS 24's audit resource.

Standards of conduct

85. In our opinion NHS 24's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for 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.

The Role of Boards

the role and work of boards across 67 public bodies and 39 colleges. The report made a number of recommendations as follows:

86. In September 2010 the Auditor General for Scotland published a report aiming to assess

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the Board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interest should be considered at every meeting	Boards should review the use of Committees and ensure delegation levels are appropriate

87. As part of our audit work in 2016/17 we followed up on NHS 24's response to the issues highlighted by Audit Scotland. Our aim was to identify any causes for concern or areas of good practice. This information will be submitted to Audit Scotland, who will assess the findings across the public sector in Scotland to identify any common issues.
88. We have noted as part of our work on the governance framework that arrangements for scrutiny and decision making are deemed to be appropriate.
89. There were significant changes to the Board in 2015/16 and we reviewed the induction process for new members and concluded this was adequate. All non-executive members receive an annual appraisal and have a Personal Development Plan which is linked to training offered.
90. The key area we have identified for potential improvement at NHS 24 relates to the transparency surrounding committees. We note that some committees are held in private in accordance with NHS 24's standing orders. There is scope for extending openness and transparency through publishing agenda's and papers for all committees or holding all meetings in public.

6

Value for Money

Value for money

Introduction

91. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

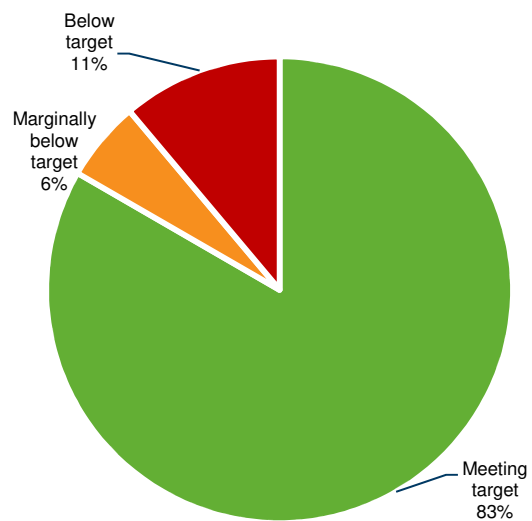
Overall conclusions

An established and appropriate performance management framework in place. There are significant changes to the organisation underway and NHS 24 is taking action to assess whether current measures remain appropriate

92. NHS 24 continues to have appropriate performance management arrangements in place which support scrutiny and challenge, and which help contribute to the achievement of value for money.
93. Performance is reported on a monthly basis to both the Executive Management Team and Board. The report is in line with SGHSCD guidance and reports against a range of measures including: Health, Efficiency, Access and Treatment (HEAT) targets; internal standards; quality measures; and out of hours primary care.
94. The current key performance measures reported to the Board highlight strong performance against clinical indicators. However, the current indicators measure outputs as opposed to clinical outcomes and it is therefore possible that areas of organisational learning are missed.
95. NHS 24 has indicated that they are reviewing their performance measures to ensure these reflect the new strategy. This represents an opportunity for NHS 24 to consider how they report on outcomes and link performance to financial inputs.

NHS 24 has demonstrated Improvement in performance against both prior year and target

96. NHS 24 reported against 18 targets in 2017/18. A RAG rating is given to each Indicator showing current performance and trend information across the financial year.



97. The graph above shows year end performance as reported to the Board in May 2017. 15 (83%) of the targets met or exceeded their trajectories whilst two (11%) underperformed.
98. Performance in 2016/17 is generally in line with prior years. Performance has improved in 11 out of the 14 comparable measures.
99. Staffing attendance continues to be challenging for NHS 24 and pressure in this area has led to a deterioration in performance in the timeliness of answering calls. In 2015/16, 92.54% of calls were answered within 30 seconds. This reduced to 80.8% in year falling below the target of 90%.

- 100.** An additional target was created in year to answer 90% of Breathing Space calls within 30 seconds. NHS 24 were significantly below this target, only achieving 82.3% of calls answered within 30 seconds.
- 101.** We are pleased to note that the narrative provided with performance reports is sufficient to support robust scrutiny and challenge. Further actions to be taken in pursuit of improved performance are clearly set out with priority given to areas of highest risk.

7

Organisational Improvement Programme

Organisational Improvement Programme

Background

- 102.** In 2011 NHS 24 embarked on an ambitious and complex programme through which it planned to transform how it provided its patient care services.
- 103.** 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.
- 104.** Following several failed attempts to implement the new systems, including an aborted attempt in October 2015, which after a number of days resulted in the system being withdrawn from service, a thorough review was undertaken to determine underlying causes for the failure.
- 105.** The review highlighted several key issues including:
- Continuing technical weaknesses in the core systems;
 - Lack of cohesion and joint working between the Programme and Service Delivery teams;
 - Weaknesses in partner engagement;
 - Weaknesses in staff training and organisational preparedness; and
 - Lack of call centre implementation experience at senior management and Board level.
- 106.** As a result of the review four workstreams were created to provide a focus for a future successful implementation. These were:
- Organisational preparedness;
 - Partner readiness;
 - Technical assurance; and
 - Contractual arrangements.
- 107.** To help support these workstreams a number of senior Programme Management appointments were made and several independent assurance groups were formed to provide additional support to the Programme Board. An experienced independent advisor was also appointed to provide additional assurance directly to the NHS 24 Board.
- 108.** Following the discovery of additional technical challenges in April 2016, the Board agreed to delay any full implementation until 2017.
- 109.** However, having received appropriate levels of assurance from across the Governance Groups, the Board gave the go ahead for the launch of the telephony only elements of the new system for the six Planned Care services in September 2016. These services successfully launched on 26 September 2016 and have been operating successfully since that time.
- 110.** In addition to the launch of the new telephony systems, the Technical Assurance Group were also able to provide confirmation that the baseline application was also now ready having addressed issues identified and additional technical issues discovered during previous testing.

Closure of the Future Programme

- 111.** Following the above successes, and the recognised need for a wider transformational programme to address underlying operational and cultural issues identified earlier in the year, the Board decided to close the Future Programme and to launch a broader Organisational Improvement Programme.
- 112.** The process of closure included the preparation of a lessons learned report focused solely on the successful launch of the six Planned Care Services, archiving of the Future Programme documentation and the release of the Future Programme team.

Launch of the Organisational Improvement Programme

- 113.** In June 2016 the NHS 24 Board agreed the need for a comprehensive Organisational Improvement Programme (OIP) to address operational and cultural weaknesses highlighted during the Future Programme and to pull together other change related projects being undertaken across the organisation.
- 114.** A workshop was held in August 2016 to:
- Create alignment on the ambition for the programme;
 - Examine the current programmes of work and prioritise delivery;
 - Identify changes required to create a strong, sustainable organisation;
 - Explore the challenges faced and how to overcome them; and
 - Develop a plan for delivering the prioritised work.
- 115.** The outcome of the workshop included a list of 80 actions considered as either “must do” or “should do” to achieve a strong sustainable organisation.
- 116.** It was also recognised that NHS 24 did not have the necessary skills to manage this scale of transformational programme and so additional resources have been recruited to manage the delivery of the programme of work.
- 117.** A Programme Brief was prepared for the Organisational Improvement Programme and approved by the NHS 24 Board in November 2016 setting out the overall objective for the Programme and setting a direction of travel which included flexibility for changing requirements to ensure that the organisation is best prepared to meet the key priorities set out in its overall strategy for 2017-2022.
- 118.** The initial deliverables for the short to medium terms are:
- A number of tests of change aimed at supporting the development and delivery of services in a way which meets public and partner needs;
 - Improving patient pathways (Model Office);
 - In-hours GP Triage;
 - Speak to Doctor (in the out of hours period);
 - The role of the Advanced Nurse Practitioner;
 - A review of the Mental Health Service provision; and
 - To implement the new technology platform within an “exemplar” approach serving the needs of a single NHS Board.
- 119.** Since the approval of the Programme Brief, a dedicated Programme Management Office (PMO) has been established to support each of the above projects. However, while work has been undertaken to develop the other areas, the primary focus of the PMO and supporting Governance Groups has understandably been on the successful delivery in May 2017 of the single Board implementation of the Model Office and underlying technology.
- 120.** This successful delivery with the single Board in May 2017 reflected several lessons learned from previous failed attempts including:
- A more inclusive and collaborative team culture;
 - A focus on ensuring operational staff were fully trained and sufficiently experienced in the new technology;
 - A more robust programme management approach; and
 - A collaborative approach with the single Health Board to address any concerns raised
- 121.** Detailed planning has now begun with the aim of the Model Office and supporting technology being implemented across the remaining NHS Boards later in 2017.
- 122.** This planning recognises considerable challenges faced in meeting a tight timescale including:
- The ability to adapt the approach successfully used during the single board implementation across the remainder of the NHS Boards;
 - The ability to recruit and manage the staff needed to deliver the full implementation

- The ability to address operational and cultural issues identified during past implementation attempts; and
 - The need to manage any changes needed to be made to the technology should issues arise through continued use.
- 123.** Underlying the last issue is the ability to work closely with external suppliers. Since flaws were identified in the contractual arrangements with the external suppliers in 2014, work has been undertaken to clarify appropriate support arrangements.
- 124.** Final discussions are currently being held with the expectation that such arrangements can be in place prior to the national rollout. These revised relationships recognise NHS 24's position as the Design Authority with primary responsibility for defining any changes and for managing any related application development and infrastructure work with each supplier separately. To support this an experienced Chief Information Officer has been recruited along with a team capable of managing this process.
- 125.** A Business Case is also being developed for the wider OIP reflecting the investment needed to deliver a range of benefits for NHS 24 and the wider health and social care sectors. The Business Case, once approved by all stakeholders, will need to be developed into detailed planning and control documents through which the ongoing programme can be effectively managed and monitored.
- 128.** The current governance structures have evolved over the past few years to reflect past weaknesses. While appropriate for the current focus on completing the delivery of the underlying technology and associated change in working practices, these structures should be reviewed to ensure that they remain fit for purpose and those involved are sufficiently experienced to provide appropriate scrutiny and support to the NHS 24 Board and Executive Team.
- 129.** Both of the above steps should be considered in detail once the national rollout has been successfully completed later in 2017.

Learning from the past to manage the future

- 126.** In developing the new Organisational Improvement Programme and its ambitious targets it is essential that the NHS 24 Board and Executive team learn from the past.
- 127.** While the current programme is benefiting from lessons learned from the past, it is important that, once the base system and Model Office have been fully embedded, a formal review is undertaken to fully collate and present all the lessons learned from the past six years for the benefit of NHS 24 and the wider public sector. This review should reflect the costs incurred and benefits 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 NHS 24 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. Employment contracts	<p>Observation A sample of thirteen employment contracts was tested. We found one signed employment contract was missing from HR records. This employee had been employed by NHS 24 since 2003. We reviewed evidence that attempts had been made by NHS 24 to receive this contract.</p> <p>Recommendation Whilst we were able to obtain alternative audit evidence to support our testing, signed employment contracts should be maintained for all NHS 24's employees.</p>	<p>This instance related to an employee who started with NHS 24 in 2003, at a time when copies of Contracts were not saved in the file or there were separate computer files. However, signed copies are now kept on file for all new employees.</p> <p>Action owner: Director of Human Resources</p> <p>Due Date: Complete</p>
Rating		
Grade 3		
Paragraph ref		
21		

Action plan point	Issue & Recommendation	Management Comments
2. Fully depreciated non-current assets	<p>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.</p> <p>However, NHS 24 has advised that following successful roll-out of the new technology platform, NHS 24 will hold very few IT assets on their register, and therefore this percentage will be significantly reduced.</p> <p>Recommendation The useful economic lives applied to all asset categories should be reviewed to ensure that they remain appropriate.</p>	<p>The majority of assets which have been fully depreciated or amortised will be disposed following the successful roll out of the Organisational Improvement Programme. Any remaining assets with a zero net book value will be assessed following the implementation of the Organisational Improvement to see if it would be appropriate to amend the useful economic lives.</p> <p>Action owner: Deputy Director of Finance</p> <p>Due Date March 2018</p>
Rating		
Grade 2		
Paragraph ref		
22		

Action plan point	Issue & Recommendation	Management Comments
3. Non-current asset tagging	<p>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.</p> <p>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.</p>	<p>The use of asset tagging will be considered once the Organisational Improvement 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> <p>Action owner: Deputy Director of Finance</p> <p>Due Date March 2018</p>
Rating		
Grade 2		
Paragraph ref		
22		

Action plan point	Issue & Recommendation	Management Comments
4. National Rollout detailed planning and risk management	<p>Observation With only four months to complete the national rollout of the new Model Office and supporting technology, it is essential that focus is maintained on key risks associated with this cornerstone of the Organisational Improvement Programme.</p> <p>Recommendation Detailed planning and operational coordination needs to be completed to ensure the following areas are addressed:</p> <ul style="list-style-type: none"> • Recruitment and training of sufficient staff members in the new technology and operational procedures to deliver the new service; • Efficient and effective resolution of any technical issues which may arise during final preparations; • Monitoring and addressing of any operational or cultural issues identified during the rollout process; and • Clear and regular communications and coordination with external partners and stakeholder. 	<p>Agreed. The planning and management of the next stages of the programme are already a top priority for senior management and will remain so until completion.</p> <p>Action owner: Chief Executive</p> <p>Due Date October 2017</p>
Rating		
Grade 3		
Paragraph ref		
126		

Action plan point	Issue & Recommendation	Management Comments
5. Comprehensive lesson learned exercise	<p>Observation</p> <p>The past 7 years have proven to be severely challenging for NHS 24. Significant errors have been made and tough decisions have needed to be made as a result. However, as the organisation hopefully finally emerges from this period, it is important for NHS 24 as an individual organisation, and as part of the wider public sector, to fully reflect on these experiences.</p> <p>Recommendation</p> <p>To ensure NHS 24, and the wider public sector, can learn from the experiences of the past 7 years, and to illustrate how the new Organisational Improvement Programme has reflected on these lessons, a comprehensive lessons learned exercise should be undertaken with the results shared to highlight how key issues have arisen and how they have been resolved.</p> <p>To avoid impacting on the efforts relating to the national rollout of the Model Office, this exercise should be undertaken only once this final stage of the process has been successfully completed.</p>	<p>Agreed, both with the need to undertake this exercise and with the recommended timing.</p> <p>Action owner: Chief Executive</p> <p>Due Date January 2018</p>
Rating		
Grade 3		
Paragraph ref		
129		

Action plan point	Issue & Recommendation	Management Comments
6. Evolution of Governance Structures	<p>Observation</p> <p>Over the past two years the governance structure applied to the Future Programme, and now the Organisational Improvement Programme, has been strengthened to provide the NHS 24 Board with additional support and assurance. This has provided valuable insights to the NHS 24 Board allowing it to make informed decisions for major programmes for which it is ultimately responsible and accountable.</p> <p>As the Organisational Improvement Programme moves into the next phase of its delivery this governance structure needs to be reviewed to ensure it remains effective.</p>	<p>Agreed. Governance arrangements will continue to be reviewed and refined.</p> <p>Action owner: Chief Executive</p> <p>Due Date October 2017</p>
Rating		
Grade 3		
Paragraph ref		
129		

Recommendation

Once the national rollout of the Model Office and the detailed planning for the delivery of the Organisational Improvement Programme have been completed, the governance structure should be reviewed to ensure it remains effective and those involved are appropriate.

Appendix 2: Adjusted differences

We identified the following adjustment during the audit. We have discussed this adjustment with management and have agreed that it should be incorporated into the financial statements.

Adjusted difference	SoCTE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Additions			41	
Impairments				41
<i>Being an adjustment to separate additions and impairment to asset under construction within the disclosures in Note 11. The impact of this would be increase spend against the CRL to £0.5million.</i>				
Net impact on income / expenditure	£nil			

Appendix 3: Respective responsibilities of the 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 and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for

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

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM ;

- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

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 annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

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 Financial Reporting Council's Ethical Standard. 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

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