NHS National Services Scotland

2016/17 Annual Audit Report

✓AUDIT SCOTLAND

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The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
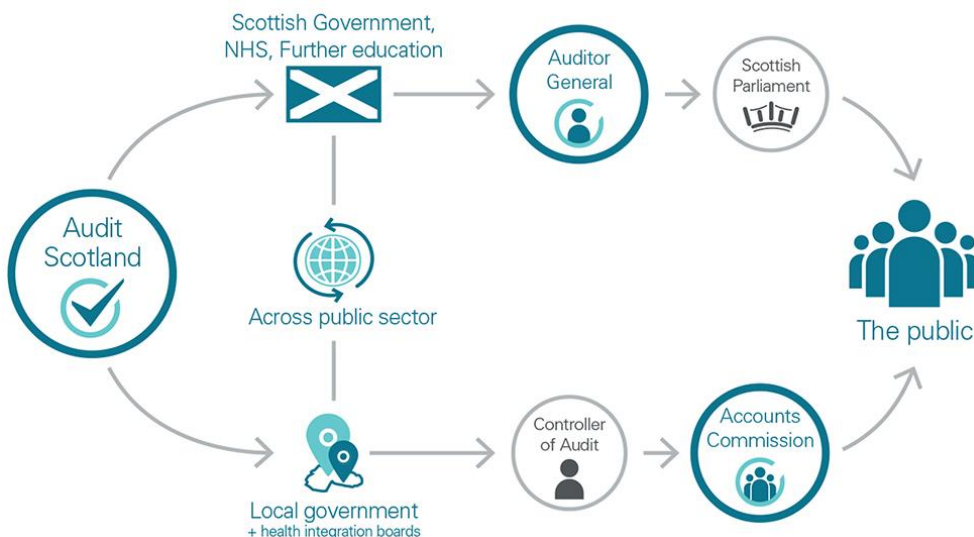
About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- Identifying risks, making clear and relevant recommendations.

Contents

Key messages

2016/17 annual report and accounts

1 Our audit opinions were all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

Financial management

2 NHS National Services Scotland has effective arrangements in place for managing its finances and the use of resources. NHS National Services Scotland met all of its financial targets for 2016/17 and achieved an underspend of £0.752 million against its revenue resource limit.

3 NHS National Services Scotland did well to achieve cash releasing efficiency savings (CRES) of £18.134 million against a savings target of £15.009 million during the year particularly given the level of savings required in 2016/17 (recurring 5% CRES).

Financial sustainability

4 NHS National Services Scotland has strong financial management arrangements that support review and scrutiny of financial performance and the achievement of financial targets.

5 While the Board achieved financial balance in 2016/17 it is facing a challenging position in future. For 2017/18 the Local Delivery Plan financial plan is projecting a breakeven position, but with small deficits to be addressed from 2019/20 onwards. Efficiency savings will be essential to maintain financial balance over the medium term. It will be increasingly difficult to make recurring efficiency savings; not all efficiency savings required to achieve a balanced financial position have yet been identified.

Governance and transparency

6 NHS National Services Scotland has appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

7 The Board conducts its main business in an open and transparent manner. It will need to keep its arrangements under review in light of increasing public expectations in this area.

Value for money

8 NHS National Services Scotland has an effective performance management framework in place which supports continuous improvement. The Board achieved or exceeded expectation in 90% of its 49 key performance indicators for 2016/17.

9 The Board is proactive in seeking to develop shared support services for the NHS in Scotland.

Introduction

1. This report summarises the findings from our 2016/17 audit of NHS National Services Scotland (NHS NSS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2016 meeting of the Audit and Risk Committee. This report comprises:

- an audit of the annual report and accounts

- consideration of the wider dimensions set out in the *Code of Audit Practice (2016)* as illustrated in Exhibit 1.

Exhibit 1
Audit dimensions

Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Board's main financial systems and governance arrangements

- an audit of the Board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions

- a review of the Board's performance monitoring and reporting arrangements.

4. NHS NSS is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice (2016)*, and guided by the auditing profession's ethical guidance.

6. As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within the NHS NSS to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice (2016)*.

8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.

9. Our annual audit report contains an action plan at Appendix 1 (page 25). It sets out specific recommendations, responsible officers and dates for implementation.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Board of NHS NSS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1
Audit of 2016/17 annual report and accounts

Main judgements

Unqualified audit opinions on the annual report and accounts.

The working papers in support of the annual report and accounts were of a good standard.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 29 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements

- an unqualified opinion on regularity of expenditure and income

- unqualified opinions on the remuneration and staff report, performance report and governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the Annual Report section of the unaudited Annual Report and Accounts and the Excel spreadsheet which supports the financial statements on 3 May 2017, in line with our agreed audit timetable. The full Annual Report and Accounts document was received later than planned, on 10 May 2017; this did not impact on the completion of the audit.

16. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

17. Also, the revised accounts reflect several aspects of good practice as set out in the Audit Scotland publication *'Improving the Quality of the NHS Annual Report and Accounts' (December 2014)*.

Risks of material misstatement

18. Appendix 2 (page 28) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

The Board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in Exhibit 2. Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£7 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£3.5 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality.	£70 thousand

Source: Audit Scotland

How we evaluate misstatements

22. There was one unadjusted misstatement which was above the clearly trivial reporting threshold; details of this are provided at Issue 1 in Exhibit 3 (page 9).

23. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the item above as the amounts are not considered material in the context of the financial statements.

Significant findings

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3 (page 9). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 (page 25) has been included.

Exhibit 3
Significant findings from the audit of the financial statements

Issue	Resolution
1. Categorisation of Property, Plant & Equipment asset newly identified by the annual valuation In the 2016/17 annual property valuation the district valuer identified an additional science lab building within NHS NSS's Liberton site which had not previously been capitalised (value £483,245), despite being owned by NHS NSS since 2011/12. Prior to 2011/12 the building was accounted for as an operating lease; in April 2011, in line with the terms of the lease, NHS NSS acquired the building. NHS NSS has accounted for the newly identified building by apportioning the value amongst the other Liberton site components as a revaluation in 2016/17; we consider that it should be treated as an addition this year. As the value of the building is below materiality, a prior period restatement would not be required. Additions within Note 11a (Property Plant & Equipment) are understated by £0.483 million as the asset has not been included as an addition. Revaluations in the note are overstated by the same amount as the value of the property has been spread across existing Liberton site assets. The net impact of this on the Net Book Value is nil and does not affect the Net Book Value of Property Plant & Equipment in the Balance Sheet.	Additions are understated by £0.483 million and Revaluations are overstated by £0.483 million. The Net Book Value of Property, Plant & Equipment is not affected as this is adjusted through the Revaluations and Impairments lines to match the valuation report as at 31 March 2017.
2. Categorisation of Property, Plant & Equipment assets NHS NSS has purchased two pieces of equipment (irradiators) for the Jack Copland Centre that are being stored by the manufacturer until the building is ready for their installation. The £0.179 million purchase cost of this equipment has been capitalised in 2016/17, with 50% of this having been paid and the balance to be paid once the assets are installed. Given the unusual nature of this arrangement we considered the underlying nature of this transaction and whether an appropriate accounting treatment had been adopted.	We confirmed that title to these items had passed from the supplier to NSS NHS. We therefore agreed that it was appropriate to recognise the full purchase price as capital expenditure, and that the items should be recognised as a non-current asset. At our suggestion; NHS NSS has added a footnote to Note 11a explaining that these assets are not technically under construction, but are included in this category as there is not a separate "non operational assets" category within NHS accounts. We are content with this approach.

Source: 2016/17 external audit of non current assets – matters arising

Other findings

25. There were no material adjustments to the unaudited financial statements arising from our audit. The audit identified some presentational and minor monetary adjustments which were discussed and agreed with management. The adjustments taken individually and aggregated did not have any effect on the reported financial outturn for the year.

Part 2
Financial management

Main judgements

NHS NSS has strong financial management arrangements in place, including budgetary control, which helps Board members scrutinise the Board's finances.

NHS NSS had appropriate systems of internal control in place during 2016/17 and our testing of the key controls over financial systems confirmed that they operated effectively.

The Board has effective arrangements in place to identify and monitor efficiency savings.

Financial performance in 2016/17

26. NHS NSS, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in Exhibit 4, the Board operated within all limits during 2016/17.

Exhibit 4
Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	395.208	394.456	0.752
Non-core revenue resource limit	11.521	11.521	0
Total revenue resource limit	406.729	405.977	0.752
Core capital resource limit	5.119	5.077	0.042
Non-core capital resource limit	5.748	5.748	0
Total capital resource limit	10.867	10.825	0.042
Cash requirement	**416.466**	**416.466**	**0**

Source: 2016/17 financial statements and May 2017 Performance and Finance Committee papers.

Underspend against Revenue Resource Limit (RRL)

27. NHS NSS achieved an underspend of £0.752 million (0.19%) against its 2016/17 revenue resource limit of £406.729 million. This outturn is consistent with the 2016/17 NSS budget which forecast a breakeven position. This underspend was principally due to delays with the opening of the Jack Copland Centre, the new Scottish National Blood Transfusion Service (SNBTS) Centre. The centre was due to open in November 2016; it is now expected to open in 2017/18, so some budgeted transitional running costs were not incurred during 2016/17.

Efficiency savings

28. NHS NSS was required to make efficiency savings of 5% in 2016/17. This is equivalent to a savings target of £15.009 million. As noted in our "NHS in Scotland 2016" overview report, savings of this magnitude are unprecedented. The Board did well to achieve a saving of £3.125 million over its target, with total savings of £18.134 million.

29. All of the efficiency savings achieved were on a recurring basis. Recurring savings are those that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. This means it will become increasingly difficult to generate recurring savings. We report on medium to long term efficiency savings on pages 14-15.

Capital allocation

30. NHS NSS received a total capital allocation of £10.867 million in 2016/17. This was made up of £5.119 million core allocation and £5.748 million non-core allocation.

31. The main area of spend was on the Jack Copland SNBTS centre, with £5.5 million going towards construction costs. Other capital spend included £2.5 million on plant and machinery; £1.5 million spent on IT equipment; £0.4m on other property programmes; £0.3m on software licence and developments; £0.3m on energy efficient programmes; and £0.3m on vehicles. An underspend of £0.042 million (core capital) was recorded, which at 0.38% of the total capital allocation is in line with the budgeted break even position.

Budgetary processes

32. We also reviewed NHS NSS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the Board's financial position.

33. We concluded that NHS NSS has strong budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the Board's finances.

Internal controls

34. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS NSS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

35. Our findings were included in a progress update report presented to the Audit Committee on 29 March 2017. We concluded that the controls put in place by

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

management are appropriate and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS NSS'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.

Prevention and detection of fraud and irregularity

36. We have a responsibility for reviewing the Board's arrangements for the prevention and detection of fraud. Our audit work on this covered a number of areas such as whistleblowing, reporting to the Audit and Risk Committee and the role of Counter Fraud Services.

37. We concluded that NHS NSS is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

38. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
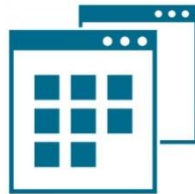
Exhibit 6

Total number of matches	Number recommended for investigation	Completed/closed investigations
9,551	652	646

Source: NFI website

39. NFI activity is summarised in Exhibit 6. The initial number of matches identified for the 2016/17 exercise was 9,508 with 646 of the matches recommended for further investigation. NHS payroll data was not included in the initial 2016/17 NFI data matching process. This was not due to any failure by health boards; there was a problem with data quality of the central upload of all the NHS payroll data and this had to be re run in February. As a result, NHS payroll matches were not included in the matches released to participating bodies at the end of January 2017. The NHS payroll matches were released to relevant bodies in May 2017; NHS NSS received 43 additional data matches, bringing its total to 9,551. The Board has completed and closed investigations on 646 matches, with no fraud or error identified.

40. The quarterly fraud updates to the Audit and Risk Committee have included updates on the NFI process; we expect the next update to report on the progress and outcomes of NFI investigations. While the NFI process is still on-going, we conclude that the Board is pro-active in investigating matches. There are no issues of concern currently which we would require to highlight in this report. We will report further progress to the Audit and Risk Committee where appropriate.

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

41. The Board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are established procedures for preventing and detecting bribery and corruption including the Standing Orders, Standing Financial Instructions and Fraud Action Plan. This information is made publicly available by the Board on its website, but we noted that several links to this information on the NHS NSS website do not currently work; this also includes the link to the register of interests for Board members.

Recommendation 1 (refer Action Plan: Appendix 1, issue 1)

The NHS NSS website links to information on standards of conduct and arrangements for the prevention and detection of bribery and corruption should be updated to reinstate the intended access to this information.

42. Based on our review of the evidence, we concluded that the Board has adequate arrangements in place for the prevention and detection of bribery and corruption.

Part 3
Financial sustainability

Main judgements

NHS NSS has adequate financial planning arrangements in place, summarised in its Local Delivery Plan.

NHS NSS achieved and exceeded its savings target on a 100% recurring basis in 2016/17.

Financial planning

43. NHS NSS's Local Delivery Plan (LDP) for 2017/18 to 2021/22 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. It was approved by the Board in April 2017. The five-year financial plan is a key component of the LDP. It sets out how the board plans to achieve financial balance over the five-year period

44. The five-year financial plan forecasts a breakeven position in based on draft plans from the Strategic Business Units (SBUs) for financial years 2017/18 and 2018/19 and a small deficit in later years. The plan recognises the significant cost pressures facing the Board going forward.

45. At the same time there are significant funding pressures over the period of the plan. The basic funding uplift for 2017/18 is 1% while in each subsequent year the funding uplift is assumed to be 1% of the previous year's baseline. Special boards' baseline funding is to be reduced by 5%.

46. In future, the Board is facing a challenging position. Rising costs and small increases in funding will continue to put pressure on Board resources and make it difficult to achieve financial balance. The financial plan projects a break-even position between out-turn and funding for 2017/18 and 2018/19 but a small deficit to be addressed from 2019/20.

Medium to long term efficiency savings

47. Efficiency savings will be essential to maintain financial balance over the medium term. It will be increasingly difficult to make recurring efficiency savings; not all efficiency savings required to achieve a balanced financial position have yet been identified.

48. NHS NSS is required to achieve efficiency savings of 5% of baseline RRL in 2017/18. This is equivalent to a saving of £16 million with all of it planned to be on a recurring basis. There is currently a gap between the identified planned efficiency savings and the 5% target, which increases year on year from 2017/18 – 2021/22. Exhibit 7 shows the currently identified efficiency savings from Strategic Business Unit (SBUs) five year plans against the 5% target. There is a shortfall across each of the five years, with higher amount of deficits expected in the outer years. NHS NSS continues to consider how best to close this gap.

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

49. Previously the Board could retain its efficiency savings and use them to cover cost pressures and developments. From 2017/18, the Scottish special boards are required to return to the Scottish Government £15 million of efficiency savings between them. NHS NSS's share of this is currently planned at £3 million, but this may have to increase. Work is ongoing to identify and agree the planning and delivery of this target across the special boards and a National Board delivery plan is expected to be submitted in September 2017.

Recommendation 2 (refer Action Plan: Appendix 1, issue 2)

The Board should ensure that savings plans are developed to close the gap between target and identified savings.

Exhibit 7
Savings forecast 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
Target	16,074	16,219	16,349	16,481	16,615
Planned	13,722	13,543	11,088	10,726	10,671
Yet to be identified	**2,352**	**2,676**	**5,261**	**5,755**	**5,944**

Source: NHS NSS LDP Finance and Workforce plan 2017/18-2021/22

Asset management

50. NHS NSS is required to manage its property, medical equipment and other assets, such as software and licences, in an effective way to ensure clients and by extension patients receive high quality care.

51. NHS NSS's annual Property and Asset Management Strategy provides information on the condition of the Board's estate. As at March 2017, property assets valued at £21.97 million account for approximately 52% of total asset value with other assets including software and licences accounting for 27%. Majority of the software and licences are funded by the SG eHealth.

52. The Property and Asset Management Strategy shows a reduction in maintenance backlog between 2015/16 and 2016/17, due to works completed during 2016/17. With no maintenance within the high risk category in 2016/17 for the first time in 5 years, the maintenance backlog for the year stood at £0.362 million in March 2017.

Workforce planning

53. In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

54. Over the course of the five years covered within the workforce plan (2018-2022), the whole time equivalent (WTE) of staff is forecast as relatively flat within the SBUs. The overall increase at the end of the five year cycle equates to (+107.5) WTE or (+3%).

55. NHS NSS is facing a number of workforce challenges. The Board relies on highly specialised staff due to the specialist services it provides, this has resulted in high levels of specialised knowledge held by individuals and small groups of staff. This could result in a lack of capacity and resilience, especially in areas of growing demand and at times of peak demand.

56. In December 2016 the Scottish Government published a *Health and Social Care Delivery Plan*, setting out its programme to further enhance health and social care services. This included a number of commitments to reforms that are likely to have significant implications for NHS NSS including more joint working at a regional and national level, expansion of the 'Once for Scotland' approach to support functions and a new, single, national body for public health in Scotland. As decisions are made in these areas, they are likely to raise a number of significant challenges for the organisation's workforce planning. It will be important that these are developed appropriately to support any wider organisational change that results.

57. Due to modernisation and reorganisation of services, there is a potential for increase in the number of staff displaced from their substantive posts. Due to the specialist nature of roles, it may be challenging to secure alternative employment through redeployment.

58. NHS NSS like most NHS Boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. At March 2017 the sickness absence rate was 4.3% compared to 4.2% for the comparable period last year; lower than the Scotland wide average of 5.4%.

Part 4
Governance and transparency

Main judgements

NHS NSS has appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

The Board conducts its main business in an open and transparent manner. It will need to keep its arrangements under review in light of increasing public expectations in this area.

Governance arrangements

59. Our review of the Board's governance and accountability arrangements considered areas based on the recommendations in the Auditor General 2010 report on the "Role of Boards", tailored to include all public sector bodies.

60. As part of the work, we reviewed a range of governance documents, minutes and agenda papers as well as internal audit's report on "Governance and Board effectiveness" and their working papers. We attended Audit and Risk Committee meetings as well as a Board development session. We also reviewed internal audit's report on Governance and Board Effectiveness.

61. The Board asked internal audit (KPMG) to conduct a review of Governance and Board Effectiveness, as a periodic corporate governance review is good practice - and there is a clear expectation that the Board will follow good practice. The review gave significant assurance to the Board; it identified several areas of good practice and made 5 recommendations for improvement. The Audit and Risk Committee has endorsed the recommendations.

62. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS NSS and for monitoring the adequacy of these arrangements.

63. We concluded that the Board has a strong focus on good governance, and the responsibility that everyone in the organisation has for ensuring this. There are appropriate governance arrangements in place which provide a framework for effective decision making. These include:

- Standing orders including standing financial instructions and committee remits are updated regularly;

- there is a good level of scrutiny and challenge by members;

- policy decisions, service performance, and programme management are subject to a good level of scrutiny and review;

- the quality of papers provided to members is satisfactory, with a good balance between narrative summary and further detail of content;

> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

- There is a good working relationship between members and officers. Both appear to fully understand their roles, which are performed in a professional manner with an appropriate level of scrutiny and discussion of issues.

64. The Board has agreed an action plan with internal audit on the recommended areas of improvement, including aspects of training and skills development for staff and Board members; clarification of Board Champion roles; development of the People Report to the Board; and promotion of NHS NSS's services to external stakeholders.

65. The Framework Document between NHS NSS and the Scottish Government forms a key part of the accountability and governance framework. It sets out the broad framework within which the Board will operate and defines key roles and responsibilities which underpin the relationship between the two organisations. It states that the framework should be reviewed at least every 2-3 years. We were unable to confirm the most recent review date.

Recommendation 3 (refer Action Plan: Appendix 1, issue 3)

The Framework Document between NHS NSS and the Scottish Government should be reviewed in line with the stated frequency of every 2-3 years, and a record kept of the review date.

Transparency

66. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

67. There is evidence of the Board's commitment to transparency including an annual review process. NHS NSS Board meetings are also held in public and the Board papers and minutes are publicly available on the NHS NSS website.

68. We have previously reported that Committee meetings are held in private and the papers and minutes are not routinely available on the website. In response to our recommendation in 2016/17, the NHS NSS Board considered whether it should routinely publish the papers submitted to standing committees. It decided that, subject to appropriate confidentiality considerations, Committee papers would be made available to the public on request.

69. It is not readily apparent from the organisation's website that such a policy is now in place. It is important that relevant information is added to the NHS NSS website to ensure that interested parties are aware they can request Committee papers.

70. NSS has a number of lines through which complaints can be made (and positive feedback also given) about its services including an online form, telephone, email and letter. Complaints are sent directly to the SBUs where cases are delegated to appropriate staff. Quarterly reports analysing complaints across services and actions taken to reduce reoccurrence in future are considered by the Audit and Risk Committee.

71. Overall, we concluded that the Board conducts its main business in an open and transparent manner, in line with other health boards. In view of increasing public expectations in this area, NHS NSS will need to keep its arrangements in this area under review.

Recommendation 4 (refer Action Plan: Appendix 1, issue 4)

Clear information should be provided on the NHS NSS website about availability of committee papers.

Internal audit

72. Internal audit provides the Board and Accountable Officer with independent assurance on NHS NSS's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

73. The internal audit function is carried out by KPMG LLP. We carried out a review of the adequacy of the internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

74. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: Financial Controls (Accounts Receivables and Treasury Management). Also, we considered internal audit report findings on Governance and Board Effectiveness; Efficiency and Effectiveness; Strategic Planning; and IT Business Continuity as part of our wider dimension work.

ICT risks

75. Picture Archiving and Communication System (PACS): Recent discussions with NHS NSS IT staff brought a risk to our attention that had not been identified in our Annual Audit Plan. Management of the contract for the Picture Archiving and Communication System (PACS) transferred to the Contract, Vendor and Service Management Team in November 2016. This team has identified a number of issues when reviewing the contract and is taking action to address these. Key risks include the following:

- there is no provision for full replication of images held on the PACS Central Archive (the preferred method for assuring data availability for critical clinical systems under the National IT Service Contract)

- there is no contractual provision for periodic technical refresh of the PACS National Archive storage and the hardware is nearing the end of its practical support life

- the software currently used to operate the PACS National Archive is approaching the end of its support lifecycle and a significant upgrade has been recommended

- in the absence of replication of images there is a solution in place to incrementally archive images to tape; but it was noted in our discussion with IT staff that this was not currently operating

- a small number of the Local Site Stores at territorial boards no longer have the capacity to meet the contractual requirement of storing 12 – 18 months of local activity

- full budget provision to cover the anticipated cost of addressing these issues has still to be agreed

76. A full options appraisal is due to be completed by the end of July 2017. Initially this will be considered by the eHealth Leads and it is anticipated that an outline business case will be in place by the end of September 2017. A PACS update

paper was presented to the 29 June 2017 Board meeting. This covered the key issues, the NHS NSS IT action plan and timescales.

Recommendation 5 (refer Action Plan: Appendix 1, issue 5)

The Board should ensure that robust arrangements are in place to ensure business continuity and system resilience for PACS.

77. Electronic Employee Support System (eESS): eESS is the NHS Scotland Employee Support System which holds and manages personal and employment data. The national IT Services contract includes a number of Change Control Notices for eESS, which cost £1.7 million in 2016/17.

78. The eESS system is still not fully utilised by all Scottish health boards. Individual boards use some aspects of eESS, and its use is developing in some areas. The roll-out of eESS across all health boards is still intended but the timing is unclear. We will continue to review developments in this area and will report on this in due course.

79. Cyber attack: On 12 May 2017, a number of health bodies in Scotland were affected by a global ransom ware cyber attack. There was no direct impact on the core IT systems used by NHS NSS, but precautionary measures were implemented to ensure that all desktop devices were appropriately updated to remove the vulnerability that was being exploited by this attack.

80. In its role as the NHS Scotland custodian of both the national data network (SWAN) and national systems provided as part of the National IT Services contract, NHS NSS co-ordinated the task of protecting the core financial and patient data held at a national level. This involved close liaison with suppliers, including ATOS, and the Scottish Government's resilience group. As a precautionary measure, a number of national services were removed from the network until there was sufficient assurance that the ransom ware had been removed from local territorial boards. All systems were returned to service with no reports of any data loss or compromise. We understand that a 'lessons learned' exercise and review of IT security will be undertaken.

Health and social care

81. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

82. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

83. While NHS NSS, as a special board, has no direct role as a partner in health and social care integration joint boards (IJBs), it continues to have an important role in supporting the process and shared services across the public sector. The Information Services Division (ISD) of NHS NSS has been commissioned by the Scottish Government to work with a range of stakeholders to develop a platform to inform intelligent commissioning strategies, support decisions on investment and improve service redesign. ISD's Local Intelligence Support Team (LIST) also provides IJBs with analysis of social care data to assist with service planning; IJBs have given positive feedback on this service.

2020 Vision

84. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision.

85. As noted in paragraph 56, the Scottish Government's *Health and Social Care Delivery Plan*, included a number of commitments to reforms that are likely to have significant implications for NHS NSS including more joint working at a regional and national level, expansion of the 'Once for Scotland' approach to support functions and a new, single, national body for public health in Scotland.

86. NHS NSS is working alongside stakeholders to development the arrangements necessary to support the planned changes in these areas. This has included a particular focus on public health and national board collaboration (working together with Special Health Boards involved in providing national services to better coordinate activity and generate efficiency savings).

87. This work continues and will be of key importance to maximising NHS NSS's contribution to the overall objectives for health and social care.

Equalities

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

89. We reviewed the current equalities report, "Mainstreaming Equalities and Equality Outcomes Report" (March 2017) and concluded the Board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Board

- report on progress made towards achieving equality outcomes published in the Equality Outcomes Plan 2013-2017

- publish annual employee information and details of the progress made in gathering and using information to better meet the duty

- publish updated gender pay-gap information.

90. We concluded, on the basis of evidence reviewed, that the Board is proactive in ensuring that equality is mainstreamed.

Part 5
Value for money

Main judgements

NHS NSS has an effective performance management framework in place. This helps support the Board in its drive to achieve value for money and continually improve how it delivers services.

The Board is proactive in developing shared support services for the NHS in Scotland.

Performance management

91. The Scottish Government monitors how NHS NSS performs against targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the Board's Local Delivery Plan (LDP). Examples include payment of approximately £2 billion to over 8000 primary care practitioners to agreed standards of accuracy and timeliness; and completion to schedule of 95% of all national information and intelligence deliverables identified within the Public Health and Intelligence (PHI) service level agreement with the Scottish Government.

92. The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Performance and Finance Committee which met three times during 2016/17. We review Committee and Board papers and minutes to inform our assessment of how well NHS NSS is scrutinising performance.

93. Each meeting of the Performance and Finance Committee receives an integrated corporate performance report. Performance is reported using 49 key indicators (including the 19 LDP Standards for 2016/17). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

94. We concluded that the NHS NSS has an effective performance management framework in place. This helps it achieve value for money and continually improve how it delivers services.

Overview of service performance

95. The Board's performance against its 49 LDP key indicators as reported in the 2016/17 annual accounts, and based on the most up-to-date position at the end of March 2017 is summarised in

Value for money is concerned with using resources effectively and continually improving services.

Exhibit 9
Overall performance
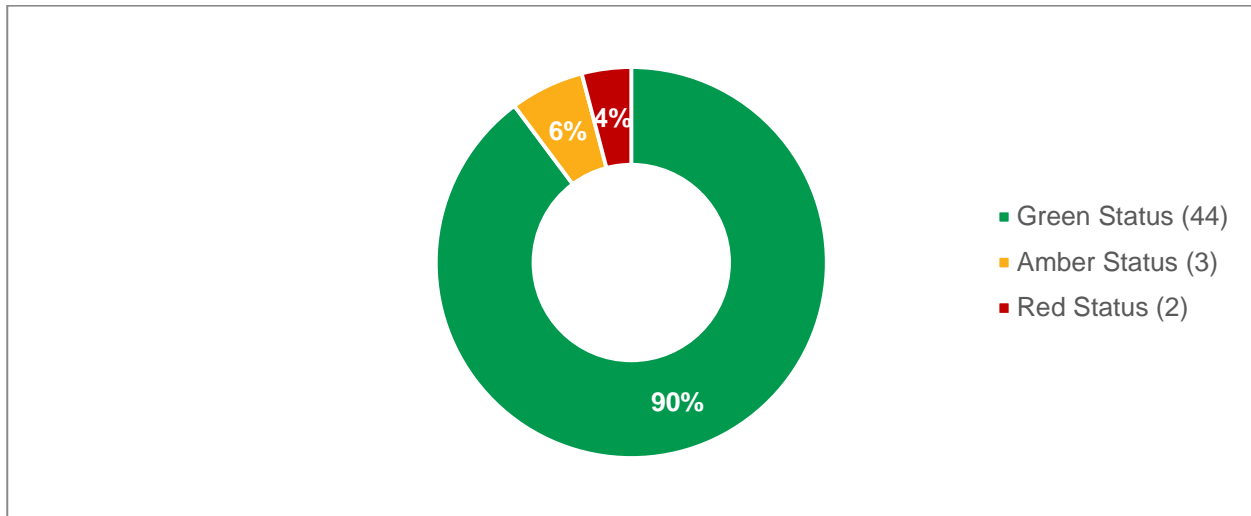
Source: NHS NSS May 2017 Performance and Finance Committee Papers

96. Of 49 Local Delivery Plan key indicators, 44 were categorised as green (8 of which exceeded targets or were expected to exceed target), 3 amber and 2 red, where:

- green means targets being met or exceeded

- amber means performance is within 5% of target

- red means targets outwith acceptable standards (more than 5% below target)

97. Overall, NHS NSS performs well with the majority of targets categorised as green or amber. Details of classed as red or amber are provided in Exhibit 10.

Exhibit 10
Performance against key LDP indicators which are outwith acceptable standards

Target/standard	Performance at March 2017[1]	Action being taken by Board
Jack Copland Centre practical completion reached by November 2016	🔴	A revised programme of work is being progressed by the developer and a completion date of August 2017 is expected.
National centre (Jack Copland Centre) operational by March 2017	🔴	A revised programme of work is being progressed by the developer and a completion date of August 2017 is expected.
Increase the number of clinical users of Discovery: target 60	🟡 50 (actual)	Move away from a manual count to an automatic recording of users in the system.

Target/standard	Performance at March 2017[1]	Action being taken by Board
National Distribution Centre (NDC) revenue throughput of £152 million by March 2017: target 100%	● 99% (actual)	Continue to work with health boards around demand management.
Customer satisfaction: target 75%	● 60% (actual)	Customer Engagement and Development Directorate will work closely with SBUs to develop specific action plans based on the results of the Customer Engagement feedback.

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: NHS NSS Performance and Finance Committee Papers May 2017

98. We have concluded that the Board's arrangements for addressing targeted performance issues are reasonable and are geared towards addressing the areas of greatest risk.

Shared services

99. The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between health boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision and beyond.

100. The *Health and Social Care Delivery Plan* published in December 2016 placed a continued focus on delivering services such as HR and financial administration on a "once for Scotland" basis and tasked health boards with exploring new delivery models which ensured collaboration and cross boundary working on a regional basis.

101. NHS NSS has been providing leadership in the development of a "once for Scotland" approach through the portfolio management of NHS Scotland's Shared Services Portfolio. Established in 2015 to progress priority areas for Shared Services identified by Board Chairs and Chief Executives, the portfolio approach provides robust governance, and enables the collaborative development of new service delivery models supported by an evidence based case for change.

102. During 2016/17 strategies have been developed for laundry, catering, sterile services and procurement. Tactical service improvements identified as a consequence of this work have been implemented locally under the direction of the Strategic Facilities Group. Work is underway in Aseptic Pharmacy, Radiology, Laboratories and Clinical Engineering. Following the publication of the *Health and Social Care Delivery Plan* and the establishment of the Transformational Change Programme Board in Scottish Government, the role, remit and governance arrangements of the portfolio were reviewed, and work in the Health portfolio prioritised as it provides the greatest opportunity to reduce costs, and improve resilience whilst ensuring sustainability and driving continuing improvement.

National performance audit reports

103. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Board. These are outlined in Appendix 3 accompanying this report. There is an opportunity for the Board to more systematically consider performance audit and overview reports.

Appendix 1
Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
13	**1. Website links** The Board has a range of information publicly available on its website regarding the Board's standards of conduct and its approach to preventing and detecting bribery and corruption. Several links to this information on the NHS NSS website do not currently work; including the link to the register of interests for Board members. **Risk** Public perception of the usefulness of the NHS NSS website may be diminished if information is not readily accessible.	The NHS NSS website links to information on standards of conduct and arrangements for the prevention and detection of bribery and corruption should be updated to reinstate the intended access to this information.	NSS will correct the two links for the Standards of Conduct and the Register of Interests. **Responsible Officer:** Associate Director, Corporate Affairs and Compliance **Target Date:** June 2017
15	**2. Efficiency savings** For 2017/18 the Board is required to deliver 5% (£16 million) savings. The Board has yet to identify £2.3 million of these savings. There are similar gaps to be addressed in future years, and the percentage of those savings which are considered high risk and which may not materialise increases in later years. **Risk** The Board may not be able to deliver the target savings required.	The Board should ensure that saving plans are developed identifying how the target efficiency savings will be made.	Progress has been made in reducing the gap of £2.3m to £1.2m to date. Work is ongoing in all areas of the business to identify initiatives to bridge the remaining gap. **Responsible Officer:** Director of Finance and Business Services **Target Date:** October 2017
18	**3. Framework Document** The Framework Document between NHS NSS and the Scottish Government states that	The Framework Document between NHS NSS and the Scottish Government should be reviewed in line with the stated frequency of every 2-3	The framework document was last reviewed in 2012. NSS will meet with SG to review and update this document as

Page no.	Issue/risk	Recommendation	Agreed management action/timing
	the framework should be reviewed at least every 2-3 years. There is no evidence of recent review. **Risk** The Framework Document may not accurately reflect how the Board operates, including key roles and responsibilities.	years, and a record kept of the review date.	required. **Responsible Officer:** Associate Director, Corporate Affairs and Compliance **Target Date:** September 2017
19	**4. Transparency** In response to a previous audit recommendation, the NHS NSS Board considered whether it should routinely publish the papers submitted to standing committees. It agreed that, subject to appropriate confidentiality considerations, Committee papers would be made available to the public on request. It is not readily apparent from the organisation's website that such a policy is now in place. **Risk** Interested parties may not be aware they can request Committee papers.	Clear information should be provided on the NHS NSS website about availability of committee papers.	The Board website will be updated to include details of how individuals may request committee papers. **Responsible Officer:** Associate Director, Corporate Affairs and Compliance **Target Date:** June 2017
20	**5. Picture Archiving and Communication System (PACS)** The PACS national archive hardware is nearing the end of its practical support life, and the Carestream software is also approaching the end of its support lifecycle. A significant upgrade has been recommended. A small number of the Local Site Stores at territorial boards no longer have the capacity to meet the contractual storage requirement. **Risk** If the PACS national archive fails, patient image records may be lost.	The Board should ensure that robust arrangements are in place to ensure business continuity and system resilience for PACS.	Agree a plan between NSS, Carestream and Atos to address the known short term technical issues associated with the tape backup solution to ensure that the existing PACS solution operates as it was designed to do. **Responsible Officer:** Director of IT Operations **Target date:** June 2017 Identify the actual end-to-end image storage position for the PACS Service (Central Archive and Local Implementations) and highlight any risks to the appropriate PACS Governance Groups and Health Boards so that mitigating actions can be discussed and agreed.

Page no.	Issue/risk	Recommendation	Agreed management action/timing
			Responsible Officer:
			Director of IT Operations
			Target date: July 2017
			Produce a Detailed Options Appraisal for the PACS way forward by the end of July and present to the PACS Programme Board (27 July) and eHealth Leads (7 August), with a view to producing an Outline Business Case for approval by the appropriate governance groups in September 2017.
			Responsible Officer:
			Director of IT Operations
			Target date: September 2017

Appendix 2
Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	No unusual or inappropriate transactions were identified as part of detailed testing of journal entries. A review of accounting estimates did not show any instance of bias. Focussed testing of regularity and cut-off assertions showed controls were operating effectively. No significant transactions outside the normal course of Board business were identified. Our testing identified no evidence of management override of controls.
2 Risk of Fraud over income ISA 240 requires the auditor to presume that there are risks of fraud in revenue recognition. NHS National Services Scotland receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, we have planned audit procedures in response to the assessed risk.	Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Review of contracts and agreement to actual spend.	Sample testing of income and expenditure confirmed that these were in the normal course of business. We obtained satisfactory reasons for any significant movements in income or expenditure. Our sample cut-off testing confirmed that transactions are processed in the correct accounting year. Our conclusion is that the Board has arrangements in place to minimise the risk of fraud over income and expenditure.
3 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This	Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas. Review of accounting policies	A number of estimations and judgements in the accounts are based on the opinion of experts. We assessed the reliability of these experts and reviewed their work, with satisfactory results.

Audit risk	Assurance procedure	Results and conclusions
subjectivity represents an increased risk of misstatement in the financial statements.	to ensure these are reasonable.	We tested samples of accruals and provisions and agreed them to appropriate supporting evidence. The accounting policies of the Board are appropriate. We concluded that estimations and judgements included in the accounts are supported by audit evidence.
4 **Valuation of the Scottish National Blood Transfusion Service (SNBTS) National Centre** We are required to confirm that assets are recorded at their true value in the balance sheet. There is a risk of subjectivity in respect of the valuation of the SNBTS project, charges/additional costs borne by the contractor may lead to the actual value of the project being different from the amount included in the accounts.	Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing (agreement to valuation certificates).	We tested the reliability of the experts responsible for the valuation of fixed assets and reviewed their work. We carried out substantive testing of the SNBTS project as part of the year end testing of assets under construction. Based on the work carried out, we conclude that the SNBTS centre is recorded at its true value.
5 **Electronic Employee Support System (eESS)** Manual interventions are currently required between the HR and Payroll functions as there is no automatic interface between these elements within the eESS system. Manual processes increase the risk of error or fraud.	Focused testing on leavers, starters and changes. We plan to place prior year reliance on Internal Audit's 2015/16 audit work on Payroll.	Interim testing of new starts, leavers and changes was carried out. The work carried out by KPMG on the Payroll system in 2015/16 was also reviewed. We reviewed key controls over the payroll and HR data and how data integrity is managed. We concluded that there were no significant weaknesses in controls around the management of data across the HR and Payroll systems.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

6 **Financial sustainability** NHS National Services Scotland reported in 2015/16 that delivering a balanced budget together with increased efficiency savings is a significant challenge and it is unlikely to be able to maintain its current services at the same levels in the same ways in a	Review of medium to long term financial planning in support of Local Delivery Plan.	Reviewed the finance progress updates prepared for the Finance and Performance committee. Reviewed year end financial position against target set in the Local Delivery Plan. NHS NSS achieved efficiency savings of £18.134 million against a target of £15.009 million all of which were recurring.

Audit risk	Assurance procedure	Results and conclusions
sustainable manner.		
7 Funding of major projects In the face of a tight e-health budget, there are some challenges around the affordability of the replacement for the Community Health Index (CHI) and Child Health Systems. The replacement project requires additional funding from the Scottish Government and commitment to financial support from other health boards. The current system runs on old hardware and needs to be replaced as it is difficult and expensive to maintain.	Monitor funding position and progress through review of relevant board and committee papers.	NHS NSS has been leading the initial phase of the CHI and Child Health programme on behalf of NHS Scotland. We have been provided with evidence of additional funding assurances from the Scottish Government to cover the funding gap which was reported to the Audit and Risk Committee in September 2017. A contract to deliver the Community Health Index and the GP Practitioner Registration Solution has been awarded to Wipro; a contract to deliver the Scottish Child Public Health and Wellbeing System has been awarded to Servelec.
8 Financial management The most recent financial monitoring reports forecast a breakeven position for 2016/17; however NHS National Services Scotland like other health boards faces a range of financial challenges. Until the year end, it is not possible to conclude that financial targets will be met.	Monitor any updates to the financial plan. Review financial monitoring reports to the Finance and Performance Committee. Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.	NHS NSS operated within its revenue and capital resource limits for 2016/17. Efficiency savings of £18.134 million were achieved in 2016/17 against a target of £15.009 million; all savings were recurring. Cut-off testing on income and expenditure transactions showed that transactions sampled were accounted for correctly.
9 Governance and transparency and value for money The Electronic Employee Support System (eESS) is a national system, but implementation problems mean it is only used by a small number of health boards (NHS National Services Scotland and NHS Forth Valley). It is unclear whether eESS will be rolled out to other health boards in future.	Review how the implementation problems experienced with the introduction of eESS are being addressed/ have been resolved. Review plans for the roll-out of eESS to other health boards, or any alterative plans. Review extent of eESS licensing costs incurred by health boards which do not use eESS.	The eESS system is still not fully utilised by all Scottish health boards. Individual boards use some aspects of eESS, and its use is developing in some areas. The roll-out of eESS to other health boards is still intended but the timing is unclear. We will report on this in due course.

Appendix 3
Summary of national performance reports 2016/17

2016/17 Reports

Apr		
May	Common Agricultural Policy Futures programme: an update	
Jun	South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland
Jul	Audit of higher education in Scottish universities	Supporting Scotland's economic growth
Aug	Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update — Scotland's colleges 2016
Sept	Social work in Scotland	Scotland's new financial powers
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report
Jan		
Feb	Scotland's NHS workforce	
Mar	Local government in Scotland: Performance and challenges 2017	i6: a review — Managing new financial powers: an update

NHS relevant reports

The National Fraud Initiative in Scotland – June 2016

NHS in Scotland 2016 – October 2016

Social work in Scotland – September 2016

Scotland's NHS workforce – February 2017

NHS National Services Scotland
2016/17 Annual Audit Report

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