

NHS National Services Scotland

Annual report on the 2010/11 audit



Prepared for NHS National Services Scotland and the Auditor General for Scotland
July 2011

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Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In the current economic climate difficult decisions will have to be made across the public sector about prioritising spending. In 2010/11 we assessed the key strategic and financial risks being faced by NHS National Services Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified opinion on the financial statements of NHS National Services Scotland for 2010/11. We have also concluded that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

NHS National Services Scotland achieved all of its financial targets in the current year. It carried forward a surplus of £0.144 million from 2009/10 and, as at 31 March 2011, achieved a cumulative surplus of £0.901 million, having recorded an in-year surplus against revenue resources of £0.757 million. NHS National Services Scotland also exceeded its savings target and delivered £7.1 million of efficiency savings over the course of 2010/11. The organisation's sound financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed promptly.

In 2010/11, NHS National Services Scotland had effective governance arrangements in place which included a number of standing committees overseeing key aspects of governance. The board was also supported by a strong internal audit function and service audit arrangements.

NHS National Services Scotland is committed to a process of continuous development and improvement. This is particularly evident from the regular performance sessions carried out within the organisation's divisions, which review in-year performance and also consider the direction of travel and alignment with the Scottish Government's National Outcomes. Furthermore, as stated in the Statement on Internal Control, NHS National Services Scotland plans to respond to the Scottish Government's updated best value guidance by developing processes to support improved performance and the achievement of key outcomes.

Outlook

The position going forward is becoming even more challenging than previous years with year-on-year reductions in baseline funding, uncertainty around nationally funded projects, increasing cost pressures and challenging savings targets. For 2011/12, *NHS National Services Scotland* is planning to break even by achieving £7.9 million savings, i.e. 3% of its baseline funding allocation. This will require careful monitoring of the financial position during the year so that any emerging budget pressures or projected overspends are addressed at an early stage. Even by achieving 3% annual efficiency savings in subsequent years, potential

financial deficits are forecast from 2012/13 onwards, with a potential cumulative deficit forecast to reach £24 million by 2015/16. The longer term financial position represents a real challenge for NHS National Services Scotland and will require the board to prioritise further its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

NHS National Services Scotland also faces a specific structural challenge in dealing with tightening budgets. Unlike territorial boards, which have a large and fairly homogenous base over which to distribute savings initiatives, NHS National Services Scotland comprises discrete services, and funding reductions in any one area can be very difficult to implement without an immediate service impact.

Workforce planning within NHS National Services Scotland is becoming aligned with the financial and service plans, as the organisation seeks to reduce its workforce costs through service design and restructuring. Policies on staff redeployment have been updated and it is important that the process of redeploying displaced staff is well-managed and aligned with business and financial plans. NHS National Services Scotland also needs to ensure that appropriate knowledge and experience is retained among key officers to maintain its capacity to deliver services. The organisation faces particular challenges in that the specialised nature of many of its services often makes it very difficult to redeploy affected staff.

NHS National Services Scotland has acknowledged that it needs to improve its strategic engagement with its partners, for example other NHSScotland boards, to ensure that it can continue to deliver effective services and national projects within the tightening financial envelope. Action points have been identified and the organisation will continue to work with partners both within and outwith NHSScotland in order to help the health service in Scotland meet its strategic objectives.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of NHS National Services Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS National Services Scotland.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and we note that the specific steps in the column headed "planned management action" are being taken. We do not expect all risks to be eliminated or even minimised. What we expect is that NHS National Services Scotland understands its risks, and we note that there are already arrangements in place to manage the organisation's identified risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit and Risk Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public as audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors 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.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Directors' Report, statement on internal control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of NHS National Services Scotland for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. NHS National Services Scotland is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
12. We have also reviewed the statement on internal control and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting Issues

14. As agreed, the unaudited accounts were provided to us on 2 May 2011 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS National Services Scotland staff allowed us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit and Risk Committee on 24 June 2011 as outlined in our Annual Audit Plan.
15. A number of presentational adjustments and some monetary adjustments were made to the accounts submitted for audit. The overall value of any monetary adjustments made was not material.
16. As required by auditing standards we reported to the Audit and Risk Committee on 24 June 2010 the main issues arising from our audit of the financial statements. The main points were as follows:

Equal Pay Claims

17. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and 22 of these relate to NHS National Services Scotland. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
18. Developments over the past year have slowed the progress of claims and led to a reduction of claims going forward. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or any financial impact they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
19. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and NHSScotland board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2010/11. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2010/11 financial statements of affected NHSScotland boards.
20. We continue to strongly encourage NHS National Services Scotland management, working with Scottish Government Health Directorates, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England. NHS National Services Scotland does not have a significant exposure to equal pay and has not received a significant number of claims. However, as with other boards, it has not been able to quantify the extent of its liability for equal pay claims. Ultimately, there is a risk that these liabilities will have an impact on NHS National Services Scotland's financial position but this is not expected to be material.

Risk Area 1

Agenda for Change

21. As at 31 March 2011, £6.5million was accrued in respect of Agenda for Change payments for NHS National Services Scotland. This figure includes estimations based on NHS National Services Scotland's assumptions and refers to a range of staff posts and grades in other health boards for National Services Division commissioned services. There is also a provision within the accounts of £1.2million. We note that this comprises arrears still to be incurred which mainly relate to people who have already left the organisation and an amount for terms and conditions in relation to Agenda for Change. We sought and obtained formal assurance from the board, in a letter of representation, that the accrual and provision, in its judgement, represents a prudent estimate of anticipated costs.

Redundancy provision for GPASS

22. Within the 2010/11 annual accounts, there is a provision for redundancy of £2.14million in respect of the closure of the GPASS operations within the National Information Systems Group. This is the same value that was provided for within the 2009/10 annual accounts. We reviewed the basis and value of the provision and are satisfied that it is not materially misstated. We agreed that NHS National Services Scotland will review this provision on an ongoing basis, in light of developments with GPASS operations. We will continue to monitor this issue during 2011/12.

Outlook

Heritage assets

23. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12, NHS National Services Scotland will be required to separately disclose any heritage assets. NHS National Services Scotland should conduct a review to identify any such assets.

Audit appointment for 2011/12

24. The Auditor General makes audit appointments, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for NHS National Services Scotland will be Audit Scotland. As Audit Scotland has again been appointed as the auditor for NHS National Services Scotland, we look forward to continuing the good working relationship that exists and thank officers and members of the board and committees for their assistance during the last five years.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2011

28. NHS National Services Scotland is required to work within the resource limits and cash requirement set by the Scottish Government Health Directorates (SGHD). In 2010/11, the SGHD required NHSScotland boards to differentiate between core and non-core expenditure for both revenue and capital.
29. NHS National Services Scotland achieved all its financial targets in 2010/11 as outlined in Table 1 below:

Table 1: 2010/11 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance	
Revenue Resource				%
Core	375,830	374,984	846	0.22
Non Core	23,250	23,195	55	0.24
Capital resource				
Core	33,259	33,244	15	0.05
Non Core	-	-	-	
Cash position				
Cash requirement	423,000	422,096	904	0.21

30. NHS National Services Scotland has achieved an overall saving of £0.9million against its revenue resource limit for 2010/11. Following discussions with the SGHD, this surplus will be carried forward and returned to NHS National Services Scotland in 2011/12. NHS National Services Scotland also exceeded its Local Delivery Plan efficiency savings target by delivering £7.1million of efficiency savings against a target of £5.5million, in addition to the savings it contributes to NHSScotland as a whole.

Financial sustainability, the 2011/12 budget and beyond

31. Uplifts in financial settlements have been reducing in recent years. In 2009/10, there was a general uplift of 3.15% and in 2010/11, SGHD confirmed a general funding uplift of 2.15%. In 2011/12, the position is significantly different and NHS National Services Scotland has had its funding reduced by 1.8%, while forecasting a 1.9% uplift in pay and prices. Given the current economic conditions and the impact of national spending priorities, there is also a risk that such funding reductions for NHS National Services Scotland will continue in future years. These pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.
32. A break even position is forecast for 2011/12, however deficits are forecast for the following financial years, with the potential cumulative deficit forecast to reach £24million by 2015/16. The Financial Plan notes that this position is based on:
- an assumption of a £5million year-on-year reduction in the baseline funding received from the Scottish Government Health Directorate, with particular risks highlighted around:
 - agreement of earmarked and non-recurring funding for 2011/12
 - potential funding shortfalls for the commissioning of programmes and projects for National Services Division
 - a potential funding shortfall in Oxygen therapy services as current demand outstrips funding available
 - the funding of the Scottish National Blood Transfusion Service national centre and the associated costs of the business cases
 - reductions in demand from health boards for those services that NHS National Services Scotland provides and which health boards pay for on a usage basis
 - services that are provided by NHS National Services Scotland on a recurring basis but that are funded on a non-recurring basis and NHS National Services Scotland's ability to manage the cost reductions required by any changes to these funding allocations
 - being able to achieve the required reductions in pay and non-pay costs.
 - delivering cash releasing efficiency savings of 3% of the organisation's baseline allocation every year. This equates to £7.9million of savings to be delivered in 2011/12.
33. In 2010/11, NHS National Services Scotland's cost savings plan was pivotal to the achievement of financial balance. As stated already at paragraph 30, the cost savings target of £5.5million for 2010/11 was exceeded and NHS National Services Scotland delivered

£7.1million of savings. The ability to achieve financial balance in 2011/12 is again largely dependent on successfully developing and implementing efficiency savings plans. For 2011/12, NHS National Services Scotland needs to achieve at least £7.9million of recurring cost savings which is equivalent to 3% of the revenue resource limit. This is a significant challenge and NHS National Services Scotland will need to monitor the achievement of identified efficiency savings, taking appropriate remedial action to address any shortfalls.

34. It is clear that the financial challenges facing NHS National Services Scotland are significant and there are elements of uncertainty on some funding streams as well as its ability to achieve the necessary further reductions in expenditure. Indeed, for future financial years, NHS National Services Scotland will require to address the deficits identified and develop robust and comprehensive efficiency savings plans that are clear on where savings can be made and what actions are required to achieve them.

Risk Area 2

Workforce planning

35. Staff costs account for nearly a quarter of the NHS National Services Scotland's gross expenditure and therefore any significant cost savings that are made are likely to have some impact on the workforce. The Workforce Plan for 2011-16 notes a planned reduction in Whole Time Equivalents of 340 permanent staff, 94 fixed term staff and 135 agency staff, with the largest reductions forecast to take place in 2012/13.
36. In addition to natural wastage, reductions in workforce costs have been identified as a result of service redesign, restructuring and the associated redeployment or voluntary redundancy of displaced staff. As such, some areas of NHS National Services Scotland have been, and will be, more affected than others. Examples include the results of the Human Resources re-alignment project or the closure of GPASS operations within the National Information Systems Group.
37. There are potential risks around NHS National Service Scotland's ability to reduce its headcount in line with the forecasts within the Workforce and Financial Plans given the current low turnover levels in the labour market and also the specialist and technical nature of many of the roles within NHS National Services Scotland, which impacts on its ability to redeploy displaced its staff. In seeking reductions in workforce costs, NHS National Services Scotland has stated that, in so doing, it will comply with current local and national policies on workforce change.

Risk Area 3

Outlook

Pension costs

38. Following the advice of the Scottish Government, Note 24 on Pension Costs reflects a net liability of £370million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the annual accounts on Accounting Policies, states that the

most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, a more up-to-date valuation would have been expected to have been reflected in the 2010/11 accounts.

39. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

40. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
41. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
42. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
43. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

44. The corporate governance framework within NHS National Services Scotland is centred on the board which is supported by a number of sub-committees that are accountable to it.
 - Audit and Risk
 - Clinical Governance
 - Remuneration
 - Staff Governance
 - Finance and Performance
45. The following paragraphs provide a brief comment on the sub-committees of the board, including their roles and responsibilities.
 - **Audit and Risk Committee:** The committee assists the board in delivering its responsibilities by providing assurance that an appropriate system of internal control has been implemented and is operating effectively to address areas of risk for the organisation. Relevant NHS National Services Scotland officers attend the Committee, along with internal audit, external audit and service auditors.
 - **Clinical Governance Committee:** The committee's remit is to provide an overarching governance of all clinical matters within NHS National Services Scotland including complaints, clinical risk, information security, quality of clinical service, freedom of information, data protection and records management. It must also satisfy itself that each

NHS National Services Scotland division has processes in place to monitor and report clinical governance issues, and to link clinical governance with risk management as prescribed in the NHS Quality Improvement Scotland (QIS) Clinical Governance and Risk Management Standards.

- **Staff Governance Committee:** The Committee works to support and maintain a culture within NHS National Services Scotland where the delivery of the highest possible standard of staff management is understood to be the responsibility of every employee and is built upon partnership working and collaboration.
- **Finance and Performance Committee:** This Committee regularly reviews the financial and service delivery position of NHS National Services Scotland to ensure that suitable arrangements are in place to secure economy, efficiency and effectiveness in the use of all resources.
- **Remuneration Committee:** The remit of the Committee includes conducting a regular review of the NHS National Services Scotland policy for the remuneration and performance management of executive directors and senior managers, agreeing their terms and conditions of employment and their performance objectives as well as ensuring that effective performance management processes are in place.

Overall, the governance arrangements within NHS National Services Scotland appear to be operating effectively.

Patient safety and clinical governance

46. In 2010/11, NHS National Services Scotland continued to work with NHS Quality Improvement Scotland (NHSQIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice to enable and support improvements in the health and wellbeing of Scottish people. This will continue with the successor organisation, Healthcare Improvement Scotland.
47. Clinical governance structures and processes within NHS National Services Scotland have developed significantly in recent years. This has included the improvement in the reporting and evaluation of clinical risks, enhanced divisional reporting mechanisms to the Clinical Governance Committee and the development of the Health Impact Strategy and the work of the Clinical Leadership Forum in terms of how it provides a link between the different divisions and the Clinical Governance Committee. All of these ongoing developments can help to ensure that clinical effectiveness can be appropriately embedded across NHS National Services Scotland. This should ensure that the clinical benefits and health impact of all of the organisation's services - even those that are not provided directly to patients and the public - are routinely considered as part of business planning processes within the organisation and can be demonstrated to key stakeholders.

Partnership working

48. Partnership working within NHSScotland covers a range of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHSScotland boards. NHS National Services Scotland plays a distinct role in the delivery of a wide range of national services and projects on behalf of NHSScotland. As such, it supports the work of every health board in Scotland in delivering key frontline services. Indeed, many Local Delivery Plan targets focus on supporting other NHSScotland boards to achieve their targets on health improvement and patient care.
49. As a support organisation, ultimately NHS National Services Scotland's ability to deliver national projects and achieve its own objectives is contingent on the pace of change and clarity of priorities throughout other NHSScotland organisations. NHS National Services Scotland has recognised the importance of effective customer engagement and partnership working to mitigate the risk of being unable to deliver national projects. The organisation has acknowledged that it needs to improve partnerships and engagement processes, particularly at a strategic level and has developed action points to be taken forward, for example the establishment of a Board Engagement Group that will provide an overview of all engagement activities being undertaken by divisions. It is important that NHS National Services Scotland can demonstrate its role and contribution to the work of NHSScotland.

Risk Area 4

Internal control

50. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
51. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2010/11 PricewaterhouseCoopers LLP (PwC), NHS National Services Scotland's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control. Our overall conclusion is that the internal controls within NHS National Services Scotland are operating effectively.
52. As part of our audit we reviewed the high level controls in a number of NHS National Services Scotland systems that impact on the financial statements. This audit work covered a number of areas including trade receivables, capital accounting and the general ledger. Our overall conclusion was that the internal controls that were operating within NHS National Services Scotland during 2010/11 were operating effectively. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.

Internal Audit

53. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 'Considering the Work of Internal Audit'. We carried out a review of the internal audit function (provided by PwC) in November 2010 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.
54. We placed reliance on internal audit work in a number of areas including trade payables, treasury management and payroll. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Service Audit - Practitioner Services Division

55. The Practitioner Services Division (PSD) of NHS National Services Scotland is responsible for calculating and making payments to primary care contractor on behalf of each health board within NHSScotland. Payment to primary care contractors accounts for more than 20% of the total health expenditure in Scotland.
56. NHS National Services Scotland has appointed PwC as the Service Auditor of the payment processes operated by PSD. Their review, as directed by Statement of Auditing Standard 70, provides assurance on the controls environment for processing practitioner data and paying primary care contractors. The report produced by the Service Auditor provided an unqualified opinion. The report notes ten control issues in 2010/11, with one requiring greatest attention. This relates to the prior approval and payment of individual claims to dentists exceeding £350.
57. Our review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit' and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance in the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing payments to primary care contractors within NHSScotland.

Service Audit - Financial Services Consortium

58. Under the "New Way Forward" Programme led by NHS National Services Scotland, a programme of foundation and pathfinder activities are being developed and delivered with health boards to implement shared services across Scotland. NHS National Services Scotland is a key driver in the shared services agenda within NHSScotland. As these consortium arrangements develop, an increasing number of responsibilities are being shared between consortium members and, as such, NHS National Services Scotland acknowledges the need to introduce robust governance and control frameworks over the services which it currently provides on behalf of consortium members.
59. All NHS National Services Scotland Consortium members have implemented Cedar eFinancials version 3.4. NHS National Services Scotland hosts certain financial services for all Consortium members providing either a first or second line support service. It also

processes certain transactions on behalf of NHS 24, NHS Quality Improvement Scotland and the State Hospital.

60. Having recognised the need to provide third party assurance to Consortium members, NHS National Services Scotland has appointed PwC as the Service Auditor of its Financial Services arrangements. Their review, as directed by SAS 70, provides assurance to the Consortium boards on agreed control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion.
61. Our own review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit' and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance in the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing Financial Services.

Service Audit - Payroll Services

62. During 2010/11, NHS National Services Scotland provided payroll services on behalf of three NHSScotland boards, specifically:
 - NHS Quality Improvement Scotland
 - NHS 24
 - NHS Education for Scotland.
63. NHS National Services Scotland appointed PwC as Service Auditor of the hosting of payroll services provided by NHS National Services Scotland. The Service Auditor's review, based on the requirements of SAS 70, provides assurance to the relevant boards on agreed control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion.
64. Our own review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit' and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance in the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in properly managing the payroll service.

Service Audit - National IT Services contract

65. NHS National Services Scotland manages a range of IM&T services throughout Scotland as part of its delivery of NHSScotland's eHealth strategy. These are integral to the activities of all NHSScotland organisations and include the National IT services contract that is currently operated by the Atos Origin Alliance (AOA), the national data network that is provided by BT, the Community Health Index system as well as the development and implementation of strands of work for the Single Patient Record programme.
66. NHS National Services Scotland appointed Scott-Moncrieff as Service Auditor to provide assurance to all NHSScotland organisations regarding the operations of AOA in supporting the National IT Services contract. The Service Auditor's report, as directed by the requirements of SAS 70, provides assurance on the control environment within AOA, agreed

control objectives and their operating effectiveness. The report produced by the Service Auditor provided an unqualified opinion in terms of the controls put in place by AOA but noted a number of matters arising, none of which was critical.

67. Our own review, undertaken in terms of ISA 610 'Considering the Work of Internal Audit' and summarised to other external auditors of NHSScotland boards, concluded that we could place reliance in the work of the Service Auditor and that NHS National Services Scotland continues to perform its role in managing core aspects of the of the NHSScotland IM&T infrastructure.

Statement on internal control

68. The Statement on Internal Control (SIC) provided by the NHS National Services Scotland Accountable Officer reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
69. The SIC also refers to the key governance structures in place to support the system of internal control and to the developments in NHS National Services Scotland's risk management processes that were progressed over the course of 2010/11. The work of the Information Management Group is also highlighted in terms of its role in monitoring NHS National Services Scotland's information governance arrangements and ensuring that appropriate standards and policies are developed and implemented across the organisation. The SIC notes the organisation's commitment to best value principles and the processes in place to ensure that it focuses on improving performance and achieving key outcomes.
70. In line with good practice, NHS National Services Scotland has reported in the SIC that a small number of frauds were reported during 2010/11. The SIC notes that appropriate actions has been taken to address the control weakness identified and the actions taken have been assessed by Internal Audit to be appropriate in the circumstances. Criminal investigations are continuing where appropriate.

Review of staff earning over £100,000 per annum.

71. The Cabinet Secretary for Health and Wellbeing asked NHS boards in November 2010 for assurance that earnings paid to those staff earning over £100,000 complied with relevant policies and guidance. Auditors were also requested to sample check earnings over £100,000 to give additional assurance on the validity of the figures. We did not identify any matters that in principle indicated that NHS National Services Scotland had been in breach of relevant national policies and guidance relating to pay matters. We reported our findings to the chair of the board on 22 March 2011 to enable him to reply to the Cabinet Secretary by the required date of 31 March 2011.

Prevention and detection of fraud and irregularities

72. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

73. NHS National Services Scotland has a comprehensive range of measures in place to prevent and detect fraud including provision within the Standing Financial Instructions, a Code of Conduct for staff and policies covering 'whistleblowing' and fraud. The Audit and Risk Committee also reviews regular fraud updates; these include quarterly reports and fraud alerts received from Counter Fraud Services as well as fraud referrals relating to NHS National Services Scotland. Over the course of 2010/11, fraud awareness sessions have taken place for some NHS National Services Scotland staff and there are plans to extend these further.
74. NHS National Services Scotland's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. We noted that there were a small number of frauds reported during 2010/11. The actions taken in respect of these have been noted at paragraph 68.

NFI in Scotland

75. In 2010/11 NHS National Services Scotland took part in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
76. It allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
77. As part of our local audit work we monitor NHS National Services Scotland's approach to the NFI. NHS National Services Scotland is proactive in preventing and detecting fraud including participation in the NFI. The Controls Assurance Manager is the designated Fraud Liaison Officer and she systematically reviews data matches and ensures that the Audit and Risk Committee receive regular updates.
78. The Audit Scotland report 'The National Fraud Initiative in Scotland - Making an impact (May 2010)' highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
79. The current NFI round is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) and which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

Standards of Conduct and Arrangements for the prevention/detection of bribery and corruption

80. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS National Services Scotland are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

81. SAS 70, the auditing standard that covers service audits, has been superseded. From 2011/12 onwards, NHS National Services Scotland intends to adopt ISAE 3402 as its service audit reporting standard. It is not anticipated that the new standard will change how third party assurance work is undertaken nor is there expected to be any significant impact on NHS National Services Scotland or other NHSScotland boards.

Best Value, use of resources and performance

82. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
83. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
84. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
85. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
86. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
87. This section includes a commentary on the Best Value / performance management arrangements within NHS National Services Scotland. We also note any headline performance outcomes / measures used by NHS National Services Scotland and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

88. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
89. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

90. The five themes and two cross-cutting themes are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting)
91. NHS National Services Scotland is committed to best value and has arrangements in place to help ensure continuous performance improvement. To ensure that NHS National Services Scotland can demonstrate it is delivering key outcomes and achieving best value, there are regular internal performance reviews for each division, which focus on in-year performance against Local Delivery Plan targets, financial plans and workforce plans. There are also regular "7-SET" sessions, based on NHS National Services Scotland's 7 Strategic Enhancement Themes, which are more forward-looking in nature and examine how each division is developing against the wider NHS National Services Scotland vision and values. These meetings, which focus on continuous improvement, require directors to demonstrate quality and innovation, increased efficiency and modernisation of working practices and will also identify areas for improvements.

Financial management - follow-up audit

92. In 2010/11, we undertook a follow-up audit of our 2008 review of use of resources in relation to financial management at NHS National Services Scotland. The 2008 review concluded that NHS National Services Scotland was judged to have Advanced Practices in terms of Financial Governance and Improving Practices for its Financial and Service Planning, Financial Monitoring and Control and its Financial Reporting.
93. Our follow-up review focused on the areas specifically highlighted in the 2008 report as requiring further improvement:
- Informing non-executive members about the work of NHS National Services Scotland's divisions
 - Establishing a pro-active programme of services reviews, based on corporate priorities or performance concerns, aimed at identifying potential efficiencies
 - Improving the audit trail in support of the annual accounts
 - Continuing to develop the public reporting of NHS National Services Scotland's activities.
94. Overall, we found that NHS National Services Scotland has made good progress in the use of resources in respect of financial management since our last review in September 2008. Key developments we noted from our review include better evaluation of financial risks through the Integrated Risk Management Approach and through the establishment of the Finance and Performance Committee. This Committee also informs non-executive members about the

work of divisions and allows the development of financial plans to be considered in more depth. We also noted the regular review of divisions through half-yearly performance reviews and "7-SET" sessions, as described at paragraph 90, as well as rigorous financial planning processes supported by resource allocation meetings, which allow a good level of scrutiny of assumptions as well as the identification of efficiencies at divisional level.

95. Since our review in 2008, the structure of the finance directorate has changed which has resulted in improved clarity of responsibilities and better integration between the various functions. Also, year-end processes have improved, along with a demonstrably clearer audit trail to support disclosures in the annual accounts.

Information management - follow-up audit

96. As part of our 2010/11 audit we conducted a follow-up audit of our 2009 review of use of resources in relation to information management at NHS National Services Scotland which was based on one of Audit Scotland's Best Value toolkits. The follow-up audit focused on five key areas of the original review – information governance and leadership; information for decision making; service delivery; compliance and control and knowledge management.
97. We noted that information management at NHS National Services Scotland continues to improve, driven by business requirements for better communication with stakeholders and acquisition, analysis and sharing of information. The Local Delivery Plan for 2011/12 demonstrates the importance of information management both through objectives that require it to support clinical services and generate cost savings, and through identification of the risks of poor information flow and quality. An action plan covering the areas for improvement identified as part of our initial review is being progressed by NHS National Services Scotland, with actions to be complete by June 2012. The actions identified are associated with external benchmarking and internal performance indicators and are being considered over a realistic timescale.

Performance management

98. NHS National Services Scotland has a well-established performance management framework in place for monitoring and reporting on performance to the board and to the Executive Management Team, with regular divisional and departmental performance reviews taking place. These reports cover both performance against the Local Delivery Plan and progress against the longer-term, outcome-based measures that NHS National Services Scotland has developed to assess and demonstrate the impact of its work on NHSScotland and against the outcomes within the Scottish Government's National Performance Framework.
99. NHS National Services Scotland has been subject to an annual review chaired by the Minister for Sport and Public Health. The annual review highlighted good performance and identified areas where specific action is required to improve or contribute further to the work of other NHSScotland boards.

People management and workforce planning

- 100.** In light of the current financial climate, over the course of 2010/11, NHS National Services Scotland has developed proposals to reduce workforce costs as a consequence of service redesign and restructuring. Measures that, in partnership, have been agreed include encouraging staff to work more flexibly, implementing a support programme to help staff access appropriate training and make any transition to alternative work, and offering displaced staff either voluntary redundancy, in line with their contractual requirements, or redeployment via the workforce pool.
- 101.** NHS National Services Scotland faces particular challenges in terms of its ability to redeploy staff appropriately given its workforce profile and the large number of technical specialists employed within the organisation. It is also important that the board retains the right staff with the right skills and has effective planning arrangements in place to ensure that the shape and skills of the workforce can meet the needs of the service most effectively.

Risk Area 3

Improving public sector purchasing – follow-up audit

- 102.** Improving Public Sector Purchasing – A follow-up audit was carried out in 2010/11 to assess whether local procurement arrangements within NHS National Services Scotland were consistent with good practice and addressed the key issues identified in Audit Scotland's national performance report 'Improving public sector purchasing' (July 2009).
- 103.** In carrying out the study we used a checklist based on the key issues identified in the national report. This was discussed with the Head of Procurement and supporting documentation gathered and reviewed by ourselves. We have prepared a draft report and this will be issued to management shortly.

Use of consultancy services

- 104.** As part of our review of the NHS National Services Scotland's performance arrangements, we have also looked at the arrangements for use of consultants. We have prepared a draft report and this will be issued to management shortly.

Overview of performance in 2010/11

- 105.** The NHS National Services Scotland board receives regular reports on progress towards achieving the key performance targets set by the Scottish Government Health Directorates (HEAT targets and standards).
- 106.** In 2010/11 NHS National Services Scotland achieved 96% of its Local Delivery Plan targets. These targets were diverse and reflected the range of services provided by NHS National Services Scotland. Targets achieved included supporting NHSScotland boards through:
- optimising the uptake of immunisation programmes
 - co-ordinating HIV and Hepatitis C action plans

- working to reduce healthcare acquired infections
- advising on how to reduce decontamination
- meeting the blood transfusion, tissue and cell needs for the Scottish population
- commissioning national specialist services
- delivering contract savings through the nationally co-ordinated procurement and logistics service.

107. Two of the remaining three targets were not progressed by agreement with the SGHD. The only target that was not fully achieved relates to the transfer of primary care records when people move practice, and cross border issues with England have prevented the achievement of this target.

National performance reports

108. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports. Some of the reports published in the last year that are of relevance to NHS National Services Scotland are listed at Table 2 below.

109. Audit Scotland's expectation is that NHS boards should consider the findings contained in national reports and identify the actions to be taken locally. At NHS National Services Scotland, the reports are issued to the Chief Executive and Director of Finance and circulated accordingly for appropriate action to be taken.

Table 2: A selection of National performance reports 2010/11

- Using locum doctors in hospitals (June 2010)
- Role of boards (Dec 2010)
- Management of the Scottish Government's capital investment programme (Jan 2011)

Source: www.audit-scotland.gov.uk

Using locum doctors in hospitals

110. Scottish health boards spend around £47million a year on locum doctors in hospitals. This spending has doubled in the past decade but, in many cases, health boards are not always clear about why locum doctors are being hired and how long they are using them for.

111. The report also says the NHS needs to get better at managing the potential risks to patient safety of using locum doctors. This is particularly important for locum doctors who are hired through private agencies as they may be unknown to the board and unfamiliar with the hospital in which they are working. Health boards across Scotland need to be consistent in the way they screen and induct locum doctors and the way they manage their performance. There are no formal systems for sharing information about individual locum doctors between boards.

112. As part of our local audit work, we note that the new locum contract has been in place since June 2010 and NHS National Services Scotland is working with health boards to implement the new framework and to progress the action plan on reducing NHSScotland dependency on agency locum doctors.

Role of boards

113. Public bodies and their boards have evolved over time. There is great variety in the size and make-up of boards and the roles that they have. Accountability can be complex, with chief executives and boards reporting in different ways to the Scottish Government, ministers and the Scottish Parliament. This risks causing confusion about who leads an organisation and is responsible for its decisions.

Management of the Scottish Government's capital investment programme

114. The Scottish Government has improved its scrutiny of its programme in recent years. However, improvements have been slow in the information about the status and performance of individual projects, which would help with management of the programme. Information about whether capital projects were on time and within budget is not always available. Where information is available, it shows that cost estimating has improved in recent years. Many projects still run late, although delays tend to be at the early stages before contracts are signed and are less likely to affect costs.

Outlook

115. During 2011/12, NHS National Services Scotland intends to establish processes to demonstrate how it will implement each of the requirements of the Scottish Government's revised guidance on Best Value. The new guidance provides an approach to support accountable officers and board members in focusing on continuous improvement to help sustainable economic growth and the delivery of outcomes required of all public services as articulated in the Scottish Government's National Performance Framework. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. NHS National Services Scotland should continue to respond to this as it develops.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Internal Audit Reliance Letter	30 November 2010	10 December 2011
Annual Audit Plan	17 March 2011	25 March 2011
Review of salaries over £100,000 p/a	22 March 2011	25 March 2011
Internal controls management letter	26 May 2011	10 June 2011
PSD assurance letter	25 May 2011	10 June 2011*
Payroll Services assurance letter	25 May 2011	10 June 2011*
eFinancials assurance letter	25 May 2011	10 June 2011*
National IT assurance letter	26 May 2011	10 June 2011*
Report to Audit Committee in terms of ISA 260	14 June 2011	24 June 2011
Independent auditor's report on the financial statements	14 June 2011	24 June 2011
Improving Public Sector Purchasing – Follow-up audit	31 July 2011 (Planned issue)	23 September 2011
Use of Consultancy services – Follow-up audit	31 July 2011 (Planned issue)	23 September 2011
Annual report to members and AGS (including results of follow-up of Best Value toolkits on information management and financial management)	31 July 2011 (Planned issue)	25 September 2011

* These assurance letters issued to the external auditors of other NHSScotland health boards based on the findings from our review of the NHS NSS service auditors' work.

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	20	NHS National Services Scotland does not have a significant exposure to equal pay and has not received a significant number of claims. However, as with other boards, it has not been able to quantify the extent of its liability for equal pay claims. There is a risk that these liabilities will have an impact on the organisation's financial position but this is not expected to be material.	The position will continue to be monitored in the light of any new advice issued by CLO or SG, and any impact on the overall financial position will be factored into the financial planning. However the impact is not expected to be material.	Director of Finance	Ongoing
2	34	The longer term financial plan remains at risk of not being achievable due to the wide range of financial challenges, pressures and uncertainties faced by the board. There is a risk that the organisation may not be able to achieve its savings targets in 2011/12 and subsequent years.	Both the short and long term financial position will continued to be monitored. NSS through its Operating Committee is developing a strategy to address forecast shortfalls in the later years of its 5 year plan. In year performance is being continuously monitored to ensure that NSS meets its financial targets as planned.	Director of Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	37 101	As the organisation seeks to reduce its workforce costs, effective redeployment or voluntary severance of displaced staff is essential if NHS National Services Scotland is to achieve its efficiency savings plans. There is also risk that this may result in key personnel leaving the board with a consequent loss of essential knowledge and experience.	A clear policy relating to redeployment and the reduction of workforce costs has been put in place. This currently supports the continuing achievement of the financial targets for NSS. The position will continue to be monitored to ensure the policies in place remain appropriate.	Director of Human Resources and Workforce Development	Ongoing
4	49	There is a risk that NHS National Services Scotland is unable to deliver on its national projects commitments if it does not engage effectively with other NHSScotland boards to demonstrate the contribution it can make to the provision of frontline services for the health service in Scotland as a whole.	Engagement with health boards at an executive level has recently been reviewed and improved to enhance the existing engagement at divisional and project level. This includes an annual engagement session with all health boards. The feedback from health boards will be considered in relation to the ongoing service/project delivery.	Director of Strategy and Performance	Ongoing