



NHS National Services Scotland

2015/16 Annual Audit
Report for the Board of
NHS National Services
Scotland and the Auditor
General for Scotland

June 2016

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Fiona Mitchell-Knight, Assistant Director, Audit Scotland is the appointed external auditor of NHS National Services Scotland for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS National Services Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.

Financial management & sustainability

- All financial targets in 2015/16 were met.
- A surplus of £0.742 million was achieved against total Revenue Resource Limit.
- Total cash releasing efficiency savings of £16.009 million achieved.
- NHS NSS has strong financial management arrangements that support review and scrutiny of financial performance and the achievement of financial targets.
- NHS NSS faces a number of risks in delivering its five year Local Delivery Plan.
- The Board's five year capital programme will come under pressure as a result of a funding gap of £4.469 million over the next five years.

Governance & transparency

- The Board has effective governance arrangements in place.
- Systems of internal control were effective throughout 2015/16.
- The Board's internal audit service complied with Public Sector Internal Audit Standards in 2015/16.
- Robust anti-fraud arrangements are in place.

Best Value

- NHS NSS has a well developed performance management framework in place.
- NHS NSS is playing a leading role in further developing shared services across the public sector.
- NHS NSS performed well against the relevant HEAT standards and other Local Delivery Plan targets.



Outlook

- The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding. The Board is predicting a balanced budget in each of the five years from 2016/17 to 2020/21.
- NHS NSS faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets and supporting the Scottish Government's 2020 Vision through the shared services agenda.
- NHS NSS through its leadership of the shared services initiative is in a unique position to contribute to and influence the future viability of the NHS in Scotland and assist in achieving the Scottish Government's 2020 Vision.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of NHS NSS. The report is divided into sections which reflect our public sector audit model.
2. The management of NHS NSS is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NHS NSS, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements where appropriate.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHS NSS understands its risks and has arrangements in place to manage these risks. The Board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified opinion that the financial statements of NHS NSS for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year.
Regularity of income and expenditure	<ul style="list-style-type: none">• In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
Other information	<ul style="list-style-type: none">• We review the other information published with the financial statements. The other information consists of a Performance Report and an Accountability Report (which incorporates a Governance Statement and Remuneration and Staff Report). We consider whether these reports have been properly prepared, comply with guidance and are consistent with the financial statements. We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
Consolidation template	<ul style="list-style-type: none">• The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

9. We received the unaudited financial statements on 9 May 2016 one week later than expected; this caused some disruption to our work programme. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 10 December 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.

13. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS NSS we set our planning materiality for 2015/16 at £6.7 million (or 1% of gross expenditure). Performance materiality was calculated at £3.3

million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £0.1 million; amounts below this value are, generally, not reported.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculations remained appropriate.

Evaluation of misstatements

19. All misstatements identified during the audit which exceeded our misstatement threshold have been amended in the financial statements.
20. The audit identified some presentational and 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.
21. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). From 2015/16 the FReM required significant restructuring to the annual report to include a performance report and an accountability report. The new accountability report includes a governance report, a directors' report, a statement of accounting officer's responsibilities, a statement of board members' responsibilities, a governance statement and a remuneration and staff report. These changes have been reflected in the Board's accounts.

22. This being the first year of the amended structure inevitably gave rise to a number of points for discussion. Management were open to our suggestions for improvements to the unaudited annual report and accounts. It is likely, however, that the annual report and accounts will further evolve over the next few years as guidance from central government becomes clearer.
23. The most significant changes made to the unaudited annual report and accounts were:
- disclosure of a remuneration of broader range of senior officers within the remuneration and staff report
 - restructuring of the performance report; accountability report; and governance statement in line with guidance.
 - reclassification of £0.507 million credit balances from trade receivables to trade payables.
 - reclassification of £0.688 million debit balances from trade payables to trade receivables.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.

- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
25. Table 1 sets out those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
<p>SNBTS asset under construction valuation certificate</p> <p>The progress of significant construction projects, like the new SNBTS national centre, is measured by professional quantity surveyors and agreed with client's agent. Formal certificates of valuation are issued and payment made to the contractor on the strength of these certificates. Valuation certificates also provide the basis for recognition of assets under construction in the client balance sheet at the end of the financial year. NSS experienced some difficulty in obtaining, for the new SNBTS national centre, a valuation certificate (signed under the professional designation of the valuer) from the project managing company. Management should ensure that valuation certificates signed by suitably qualified professionals are obtained in support of all assets under construction included in future balance sheets.</p> <p><i>Appendix IV – Action Plan No. 1</i></p>

Future accounting and auditing developments

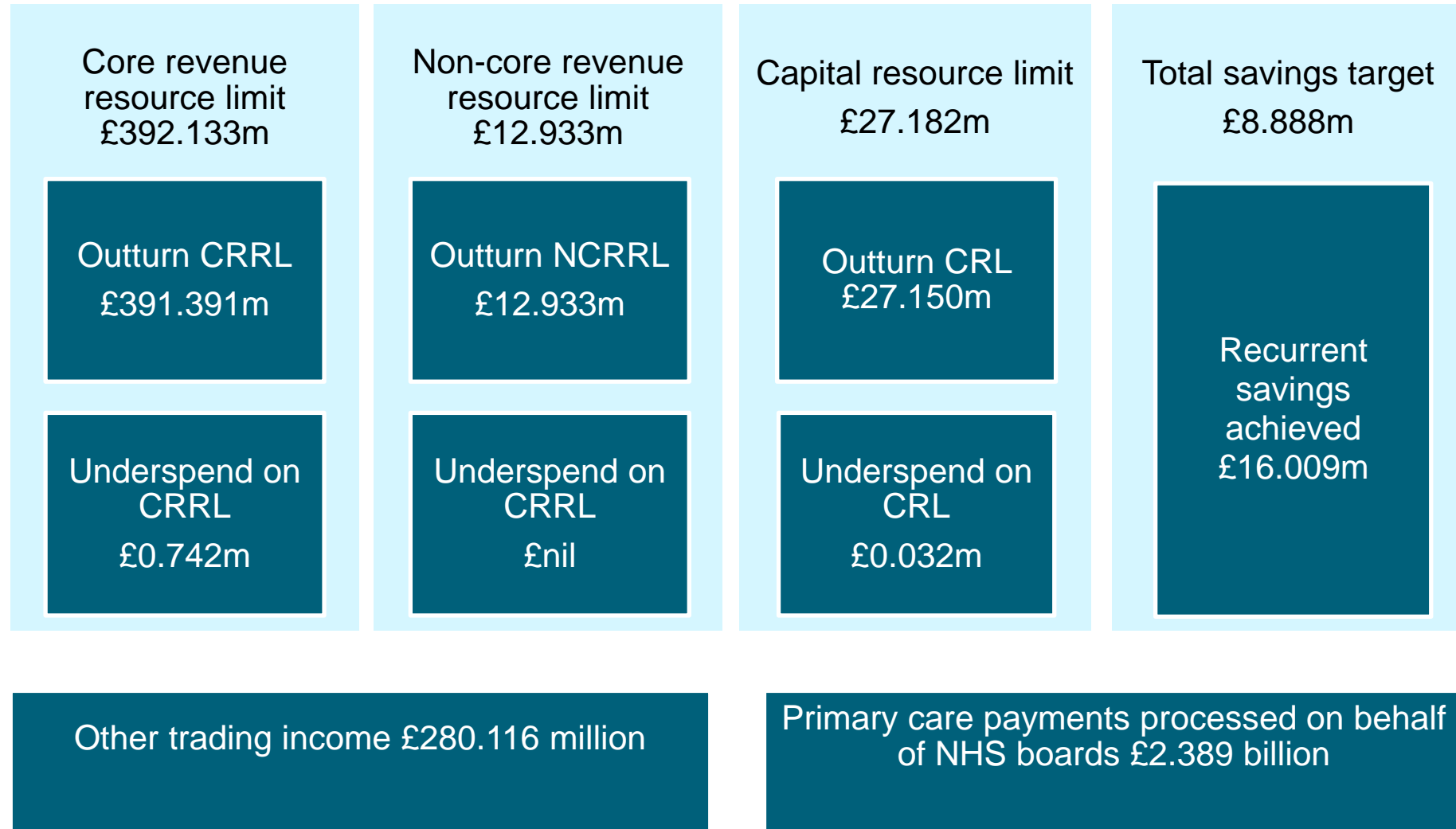
Audit appointment from 2016/17

26. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed, for a five year term, either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment and we would like to thank Board members, executive directors and staff for their assistance during the last five years.
27. The procurement process for the five year period commencing 2016/17 was completed in March 2016. From next year Audit Scotland will again be the appointed auditor for NHS NSS but a different audit team will be in place for 2016/17 and the succeeding four years.

Code of Audit Practice

28. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
29. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. Presently only annual audit reports are published on Audit Scotland's website. In future, for all audited bodies, Audit Scotland will publish all annual audit plans and other significant audit outputs, irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

Financial management and sustainability



Financial management

30. In this section we comment on the financial outcomes and assess the Board's financial management arrangements.
31. The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed Capital Resource Limit (CRL). Both funding streams are agreed annually with the Scottish Government Health and Social Care Directorate (SGHSCD).
32. The Board must ensure that expenditure is within the resource limits set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management and keeping expenditure within the agreed limits.

Financial performance 2015/16

Revenue expenditure

33. The Board's final RRL (£405.066 million) and CRL (£27.182 million) were agreed with the SGHSCD on 4th May 2016.
34. The Board achieved its financial targets in 2015/16 and delivered total efficiency savings of £16.009 million against targeted efficiencies of £8.888 million.
35. The Board had budgeted to break-even against its Revenue Resource Limit in 2015/16. The actual outturn position was a

surplus of £0.506 million, which added to the previous year surplus of £0.236 million is a total of £0.742 million.

Net assets

36. The Balance Sheet at 31 March 2016 discloses net assets of £41.607 million being total assets of £140.873 million less total liabilities £99.266 million.
37. Reflecting on the financial position of the Board we concur with management's view that a going concern assumption is appropriate in preparing the financial statements.

Capital expenditure

38. The Board remained within its Capital Resource Limit (£27.182 million). Capital expenditure was concentrated on the construction of the new SNBTS National Centre at Herriot Watt Research Park in Edinburgh; the continuing three year programme to upgrade static and mobile breast screening units from analogue to digital; the rolling replacement equipment programme; and IT infrastructure.

Financial management arrangements

39. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the chief financial officer has sufficient status to be able to deliver good financial management

- standing financial instructions and standing orders are comprehensive, current and promoted within the Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - Members provide a good level of challenge and question budget holders on significant variances.
40. Financial monitoring activity includes the preparation of monthly monitoring reports which are considered by the Executive Management Team (EMT) and subsequently submitted to the Performance and Finance Committee and scheduled Board meetings for members' consideration. These reports include forecasts of year end outturn position, including reasons for over/underspends across the business units.
 41. The reports do not cover future cost pressures or opportunities. These are analysed during the annual resource allocation meetings (RAMs) and are reported and reviewed as part of the local delivery plan (LDP) annual update.
 42. Each strategic business unit (SBU) is challenged on its resource allocations for the coming year, and an overview of the overall business opportunities and threats is included as a SWOT analysis for each business unit to include in their approach for the year.
 43. An overall analysis is prepared detailing potential business growth areas, customer needs, major competitors, areas for research and development and areas where changes to investment levels are needed over the coming year.
 44. Whilst the LDP only formally sets targets for each year including financial goals, NHS NSS plans on a five-year basis and the LDP targets are seen as 'milestones' within the longer plan with the LDP 'rolling forward' each year.
 45. Financial planning assumptions including cost pressures are also included for the five year period along with a projection of the outturn surplus/deficit position in each of the financial years of the plan. The documents are reviewed by the EMT, Board and Performance and Finance Committee.
 46. During 2014/15, as part of our governance work, we undertook a review of budgetary control and reported our finding in our internal controls report. We concluded that overall the Board has an effective process of budgetary control; we noted no significant changes in 2015/16 which would alter this conclusion.

Conclusion on financial management

47. We have concluded that the Board has strong financial management arrangements that support the review and scrutiny of financial performance and the achievement of financial targets.

Financial sustainability

48. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future needs of its stakeholders. In

assessing financial sustainability we are concerned with the Board's financial planning, financial performance, capital programme and workforce management.

Financial planning

49. The Board's LDP for 2016/21 aligns strategic priorities with financial plans, workforce plans and service delivery plans. The five year financial plan assumes a 1% baseline increase for 2017/18. No indication of baseline funding for years 2018/19 has been given by the Scottish Government as yet, therefore a 0% uplift is included for the final three years of the LDP. The Scottish Government's efficiency target has increased from 3% to 5% and the LDP incorporates efficiency savings of £15 million in each of the five years of the plan.
50. The plan recognises the significant cost pressures facing the Board going forward; notably staff pay costs, increased NI costs and commissioning costs for the new SNBTS National Centre. Achievement of financial balance is largely dependent on the successful delivery of an ambitious efficiency savings programme and increased income from other public sector bodies, principally health boards, as NHS NSS achieves increased uptake of services.
51. The Board recognises a number of risks which have the potential to impact on achievement of its LDP:
- Income from other public bodies continues to increase and these sources depend on the strength and quality of service delivery.

- Some SBUs have income targets for attracting new business; failure to meet the targets will result in both lost income and unavoidable costs.
 - Development funding to support the strategic direction has been limited to £3 million (£8 million requested).
 - The financial consequence of the proposed national shared services work has not been included in the financial plan. The funding requirement to take this forward would be subject to agreement with the Scottish Government.
 - Commissioning of the new SNBTS National Centre has a number of associated risks which would bring financial consequences.
 - The cash releasing efficiency savings programmed into the LDP are demanding and where not met will have a financial impact.
52. The overall capital programme budget for the Board shows a shortfall in funding of some £4.469 million over the five years of the LDP. The Board is sighted on the issue, and as well as seeking to identify alternative funding models, each current project will undergo challenge to ensure that the programme can be delivered within available funding.

Workforce Management

53. Workforce planning is integral to the Board's strategic planning process and is a key element of the LDP. NHS NSS has a 'rolling' workforce plan covering a five year period, with the aim of ensuring

the right people with the right skills are working in the appropriate areas of the organisation to allow NHS NSS to deliver its outcomes in support of the Scottish Governments 2020 Vision.

54. The LDP workforce plan projections show a decrease of 59 whole time equivalent (WTE) over the years 2016/21. The plan focuses on the current and future capability of the organisation and follows business need assessments prepared by SBUs. However, this projection excludes the impact of changes arising from the NHS NSS strategic ambition of delivering a significantly greater proportion of shared services to the Scottish public sector.
55. The potential increase in the workforce, if the full strategic ambition is realised, has been estimated by NHS NSS to be of the order of 4,000.
56. During the year Internal Audit reported on a review undertaken on the processes in place to ensure that NHS NSS has a sustainable workforce. The report identified a number of areas of good practice and four risk areas. One risk area which we consider to have particular significance for NHS NSS, as it strives to deliver increased shared services across the public sector was:

“a risk that SBUs are not fully mapping current workforce skills and capabilities against requirements for the provision of future services and NSS may have resourcing gaps as it continues to grow in line with the strategy.”

An action plan was agreed by the Director of Human Resources and Workforce Development to address this issue.

57. The 2015/16 financial statements include £0.492 million (£0.419 million 2014/15) of costs relating to nine (five 2014/15) individual exit packages agreed as part of the Board's Voluntary Severance Scheme (VSS). A robust evaluation process is in place to ensure that exit packages approved under the VSS are supported by a business case signed by the relevant director and approved by the Remuneration Committee.
58. During 2015/16 the Board incurred £5.445 million (2014/15 £5.531 million) in relation to agency staff, representing 3.9% of payroll costs (2014/15 4.2%). Management advised that this was due, in the main, to increased IT service provision. Continued reliance on agency staff to this extent may impact on the Board's plans to achieve the savings required for longer term sustainability. The Board have confirmed that they are well sighted on these costs and the resourcing position is under continuous review.
59. The HEAT standard is for NHS boards to achieve a sickness absence rate of 4.0%. In 2015/16 NHS NSS sickness absence was 4.2%, this compares unfavourably with previous year 3.8% figure. Although NHS NSS compares well with the Scottish average of 5.4% the increased rate of sickness absence over 2014/15 is of some concern.

Conclusion on financial sustainability

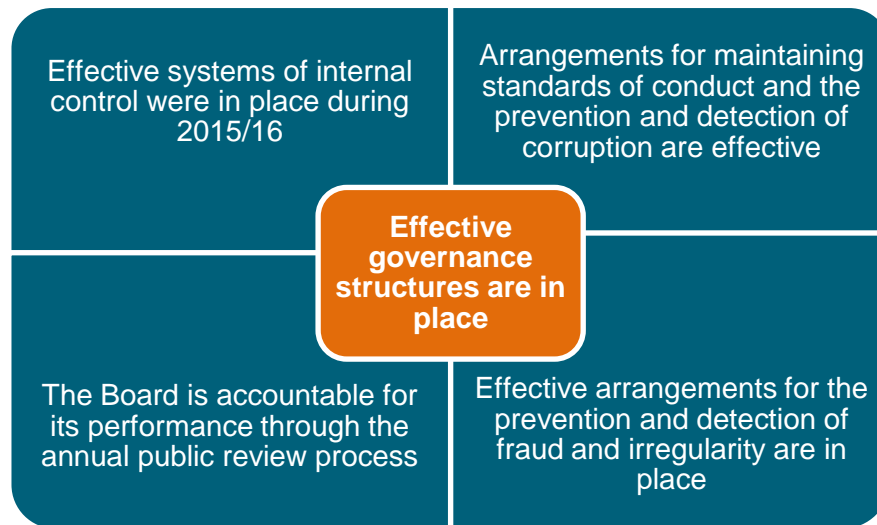
60. The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings. Given the Board's own assessment of the risks it faces in delivering

the five year financial plan, financial sustainability under the current funding model is more challenging than in previous years.

Outlook

61. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding.
62. The Board is predicting a balanced budget in each of the five years from 2016/17 to 2020/21. This is dependent on increased efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. This makes it more challenging for the Board to deliver balanced budgets in future.
63. The Board has a pivotal role in leading the delivery of the Scottish Government's Shared Services agenda. A governance structure has been established and engagement across NHS Scotland and with public bodies has improved. Significant barriers to change remain to be surmounted before NHS NSS can realise its strategic ambition of becoming the national provider across all sectors.

Governance and transparency



- 64. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS NSS and for monitoring the adequacy of these arrangements.
- 65. The Board is responsible for the strategic leadership and governance of NHS NSS. It is supported in this role by a number of standing committees with formally delegated remits. Figure 1.
- 66. Although there have been no changes to the Board’s governance structure since last year, the Chief Executive left the organisation during 2015/16 and an interim Chief Executive was appointed

pending a permanent appointment. A permanent appointment was made in June of this year and the new Chief Executive will be in post from 1 August 2016.

Figure 1: NHS NSS standing committees



Source: NHS NSS organisational structure

- 67. The standing committees met on a regular basis throughout the year.

68. We concluded that the Board has appropriate overarching and supporting governance arrangements which provide an effective framework for organisational decision making.

Internal control

69. As part of our audit we review and test the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
70. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board'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.
71. We did, however, identify a number of areas where controls could usefully be enhanced. We reported our findings, in our "Review of Internal Controls 2015/16", to the Audit and Risk Committee on 30 March 2016.

Internal audit

72. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place

reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

73. The Board's internal audit function is, from 1 April 2015, provided by KPMG LLP. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.
74. The internal audit plan for 2015/16 was materially complete at the time of our review, and we were able to place formal reliance on the intended aspects of internal audit work as set out in our Annual Audit Plan.

Arrangements for the prevention and detection of fraud and other irregularities

75. The Board's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

National Fraud Initiative in Scotland

76. NHS NSS participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.

77. We reported in our 2014/15 annual audit report, that data initially submitted by NHS NSS for NFI creditors matching contained inconsistencies due to the transfer to national single instance.
78. Our 2014/15 annual audit report recommended that all high priority data matches should be investigated as soon as possible. Management advised that this would be taken forward as a priority, with a target completion date of July 2015.
79. NSS did not receive the creditor matches until October 2015, with investigation of recommended matches completed in February 2016. NSS did not identify any significant issues from its investigation of the recommended matches.
80. We acknowledge that difficulties were experienced by NHS NSS in providing a viable data download for matching purposes and consequently matches were not available until October 2015. However, some of the delay was attributable to a lack of training for staff involved. In view of NHS NSS role in countering fraud in NHS Scotland we consider that NFI work should have a higher profile within the organisation. We suggest that the internal audit function takes on an oversight role and that reports are provided to the Audit and Risk Committee on a regular basis during the course of the periodic NFI exercises.

Action plan 1

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

81. The arrangements for the prevention and detection of corruption in NHS NSS are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

82. The public should be able to hold the Board to account for the services it provides. Transparency means that the public has access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.
83. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and health boards. The 2014/15 review was held on 26 June 2015 and produced a positive letter of acknowledgment from the Cabinet Secretary for Health, Wellbeing and Sport. Figure 2.
84. The annual review for 2015/16 has not yet been fixed.

Figure 2: Extract from the 2014/15 annual review of NHS NSS

“...you conducted the Review meeting in public on the afternoon of 26 June. You clearly outlined progress, success and challenges in key areas and gave the audience the opportunity to question the Board’s Senior Management Team.”

Source: Letter from Cabinet Secretary for Health, Wellbeing and Sport to Chair of NHS NSS

- 85. Members of the public can also attend meetings of the Board although meetings of standing committees are not held in public session.
- 86. A significant amount of the Board’s business is transacted through sub-committees. While minutes of the committees are available in Board papers available on the website, committee papers are not available on the website. The Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.

Action plan 2

- 87. NSS encourages complaints by providing a variety of methods for individuals to make a complaint about NSS services. Complainants contact NSS via a website form, telephone, email or letter. The NSS strategic business units receive complaints directly and each case is delegated to and handled by appropriate NSS staff. A quarterly report is taken to the Audit and Risk Committee for discussion. The

report includes an analysis of complaints across services and actions being taken to reduce recurrence in future.

- 88. A wide range of information on how the Board operates is available on its website. Information available includes corporate policies and statements, expenditure reports, freedom of information responses and registers of expenses, interests and gifts and hospitality relating to Board members.
- 89. Overall we concluded that the Board is open and transparent although we believe that the Board should consider enhancing transparency by publishing papers submitted to standing committees.

Freedom of Information requests

- 90. The Board reports that 95.6% of FOI requests were processed within the statutory timescales.

Integration of health and social care

- 91. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act sets out the framework for the integration of health and social care services in Scotland. The Act also empowers NHS NSS to provide services to substantially all Scottish public bodies. The Board now is well placed to work with the wider public sector in supporting the introduction of health and social care integration.

92. While NHS NSS has no direct involvement in health and social care partnerships, it has an important role in supporting the process and shared services across the public sector. We comment further on shared services in the section on 2020 Vision (paragraphs 120-126).
93. Integration authorities will require robust information and intelligence if the potential benefits of strategic planning are to be realised. In order to support this, the Scottish Government has commissioned the Information Services Division (ISD) of NHS NSS to work with a range of stakeholders to develop a platform to inform intelligent commissioning strategies, support decisions on investment and improve service redesign.

Scottish Wide Area Network (SWAN)

94. NHS NSS has procured a single public sector communications network, the Scottish Wide Area Network (SWAN). Public sector bodies can opt in to the facility by entering into a membership agreement. Members may then, via a framework agreement with the contractor, obtain a range of services beyond simple access to the network. The network went live on 1 April 2014.
95. During 2015/16 an independent review by external consultants Scott Moncrieff was reported. The review was commissioned in response to a higher than expected level of major incidents affecting the performance and availability of the network.
96. The review identified a number of weaknesses and made recommendations to make improvements. The review set out five

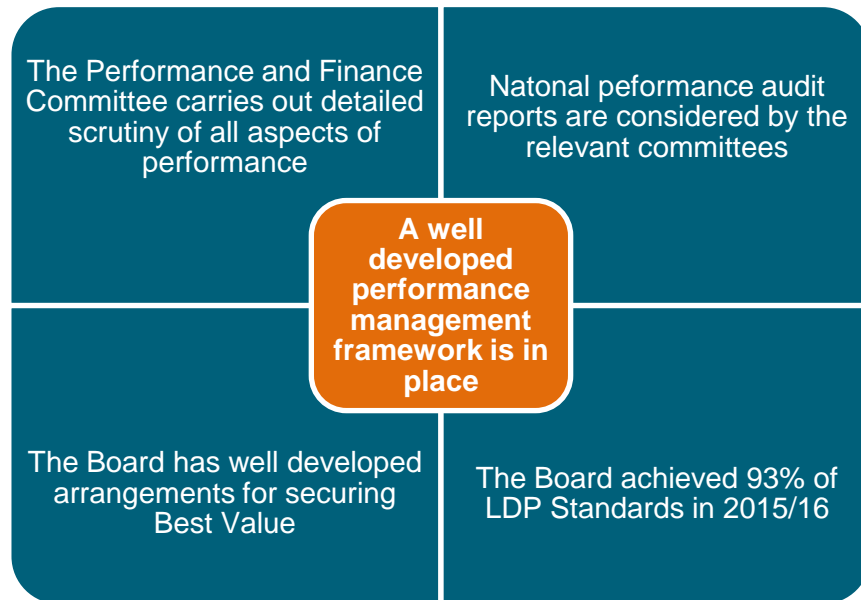
high risk weaknesses with a further 20 categorised as medium risk and 16 as low risk.

97. Over the course of 2015/16 negotiations took place between Capita, the service provider) and NHS NSS to reach a financial settlement for service level deficiencies since the inception of the contract and to make variations to the original contact. A formal agreement was signed by Capita and NHS NSS in March 2016.

Outlook

98. NHS NSS faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets and supporting the Scottish Government's 2020 Vision through the shared services agenda.
99. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.
100. Good governance will be particularly important where Board resources and service delivery are devolved to third party organisations. It will be crucial that the Board implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money.

Best Value



101. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Arrangements for securing Best Value

102. The Scottish Government guidance groups Best Value into five key themes, with two overarching themes. The five key themes are:

- Vision and leadership
- Effective partnerships
- Governance and accountability

- Use of resources
- Performance management.

There are also two cross cutting themes which public sector bodies are expected to mainstream across all activities:

- Equality
- Sustainability.

103. The Board undertakes a biennial review of its performance against the Scottish Government’s best value framework. The results of the review undertaken in 2015 were presented to the Performance and Finance Committee in October 2015.

104. Each of the key themes was graded “green” in the 2015 review. It was noted that some developments had taken place since the previous review in support of best value. These included:

- The establishment of a dedicated Customer Engagement and Development team to provide a standard customer engagement approach and initiate contacts with public bodies.
- The introduction of a standardised process in setting up any new or enhanced service capability. The process is designed to assess conformance against NSS objectives, risk, benefits, inputs and cost estimates.

105. Of the two cross cutting themes performance against ‘Equality’ has remained green. However, ‘Sustainability’ had not progressed and was graded “red”. A new sustainability strategy is in development.

106. We have reviewed evidence underpinning the Board's BV arrangements including the LDP, performance management and reporting and committee papers. Overall, we concluded that the Board has well-developed arrangements for securing BV and continuous improvement.

Performance management

107. The performance of NHS NSS is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the Board's 2015/16 LDP.

108. The Board has a well developed Performance Management Framework in place. A Corporate Performance Framework, the Decision Support Tool (DST), incorporates all HEAT and LDP targets and standards, as well as performance in other areas of service activity.

109. Performance is reported to the EMT on a monthly basis; the Performance and Finance Committee on a quarterly basis; and the Board and Scottish Government on a bi-annual basis.

110. We concluded that the Board has a well established performance management framework in place supported by performance monitoring at an appropriate level.

Electronic Employee Support System (eESS)

111. National strategic oversight of eHealth is provided by the eHealth Strategy Board. Governance oversight of the delivery of Scottish Government funded programmes and projects is provided by the eHealth Programme Board.

112. The Oracle based NHS Scotland (eESS) was procured by NHS NSS on behalf of NHS Scotland in December 2010. It was intended that this system would be implemented by all NHS Boards to provide a standardised approach to HR management within NHS Scotland.

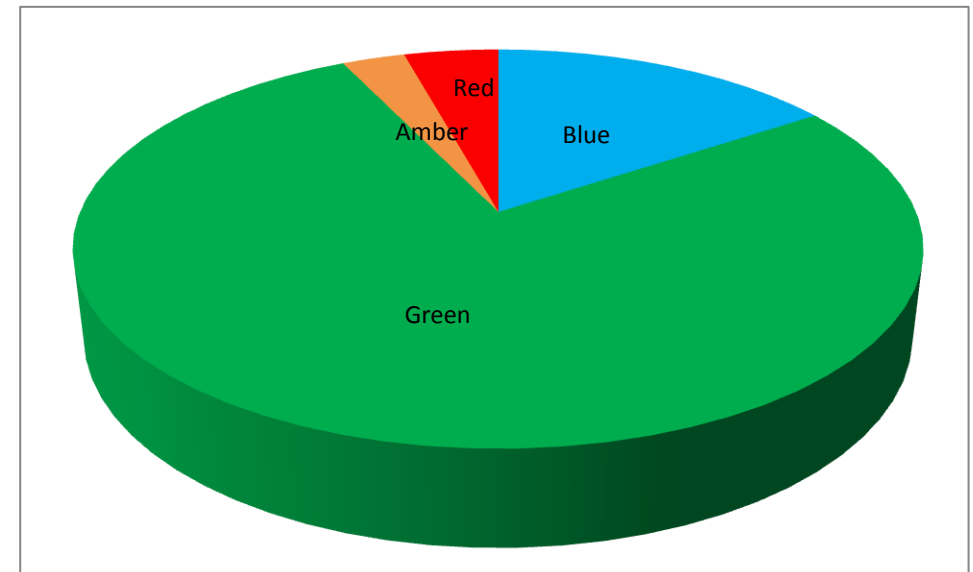
113. The NHS NSS contract for its HR system, Empower, came to an end in March 2015. NHS National Services Scotland commenced roll out the eESS system across the organisation in February 2015. Subsequently a number of system issues were identified, including payroll interface issues, recruitment module issues and migration of data from previous systems. NHS NSS internal IT department was involved in finding resolutions to the issues and Oracle was commissioned directly to adapt the system to provide an acceptable level of functionality.

114. Overall, across NHS boards, there is a reported reluctance to transfer to eESS due to known problems and limitations. Following a report to the NHS Chief Executives Group in December 2015 it was decided to continue with the roll out of the eESS system across Scottish NHS boards.

Overview of performance targets in 2015/16

115. In relation to the local delivery plan, the Board monitors performance through 70 standards and targets set out in its LDP. In 2015/16 NHS NSS achieved 65 of the 70, figure 3. Of the measures which were not achieved, none were assessed as having a business, clinical or reputational risk.
116. Of 70 LDP standards, 54 were categorised as green, eleven as blue, two as amber and three as red where:
- Green means on track or completed
 - Blue means ahead of schedule
 - Amber means behind schedule
 - Red means more than 10% behind schedule
117. As a special health board, many HEAT targets are not applicable to NHS NSS. The targets which do apply are:
- To operate within the agreed revenue resource limit, capital resource limit and meet their cash requirement.
 - To achieve a sickness absence rate of 4.0%.
118. In 2015/16 NHS NSS met or exceeded all of its financial HEAT targets. This included delivering on its financial targets.
119. The sickness absence rate for 2014/15 was 4.2%, up from 3.9% in the previous year. This exceeded both the HEAT target and the NHS NSS internally set local target of 3.8%.

Figure 3: Achievement of performance targets 2015/16



Source: NHS NSS performance data

2020 Vision

120. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "[NHS in Scotland 2015](#)", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. While much of the report has specific relevance to territorial boards, NHS NSS has a key role in supporting and enabling change.

121. NHS NSS led shared service initiatives have been underway across NHS Scotland for a number of years and more recently the NHS Scotland Board Chief Executives Group have agreed that a new and more ambitious approach is now required to deliver sustainable, consistent and effective support services across the public sector in Scotland. This approach has been endorsed by the Cabinet Secretary and the SGHSCD.
122. The main thrust of NHS NSS contribution to the 2020 Vision is its vision of delivering a range of shared services across NHS Scotland, Integration Joint Boards and the public sector in general. NHS NSS has examined opportunities across Scotland's public sector to identify areas where it can deliver improvements and savings. The LDP sets out the agreement between NHS NSS and Scottish Government on NHS NSS deliverables in support of Scotland's 2020 Vision for health and social care and national priorities.
123. NHS NSS has a strategy map detailing how the strategic objectives of the organisation link into the national priorities of the 2020 Vision. NHS NSS has designed its objectives and outcomes to support achievement of the national priorities and it is evident through review of minutes and committee papers that consideration of how NHS NSS can effectively contribute to Scottish Government objectives is built into all service and strategy discussions.
124. In 2015/16 KPMG LLP, as internal auditors of NHS NSS, produced a report, "Shared Services Governance". The report considered the portfolio management and governance arrangements supporting

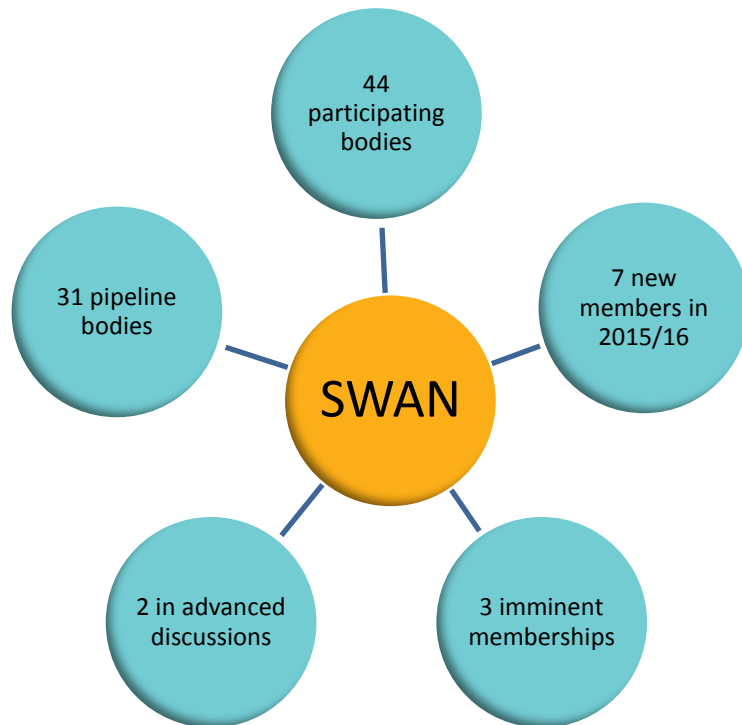
NHS NSS shared services portfolio. While the report identified a number of areas of good practice along with some areas for further development, the most significant conclusion was the identification of a number of "barriers to change":

- Mandate
- Investment
- Localisation and staffing issues
- Leadership and governance.

The report acknowledged that NHS NSS was working to overcome the barriers to change but that the barriers lie outwith the direct control of NHS NSS.

125. As part of its contribution to the operations of the wider public sector in Scotland NHS NSS was charged with procuring and overseeing the operation of the Scottish Wide Area Network (SWAN). Public sector bodies have the choice to opt in to the facility and despite some adverse publicity the numbers choosing to do so have increased over the course of 2015/16, figure 4.
126. We have concluded that the Board is proactive in supporting health boards and other public sector organisations to deliver the Scottish Government's 2020 Vision.

Figure 4: SWAN participation



Source: NHS NSS National Information Systems Group

Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are summarised in [appendix III](#) to this report.

- 128. NHS NSS has processes in place to ensure that all national performance reports and their impact on the Board are considered by relevant committees as appropriate.
- 129. From our attendance at the Audit and Risk Committee, and review of other committee minutes, we concluded that the arrangements for considering national performance audit reports are consistent with good practice.

Outlook

- 130. Audit Scotland in its annual overview of the [NHS in Scotland 2015](#) (October 2015) highlighted that pressures on NHS boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning. NHS NSS through its leadership of the shared services initiative is in a unique position to contribute to and influence the future viability of the NHS in Scotland and assist in achieving the Scottish Government’s 2020 Vision.

National performance audit reports

- 127. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

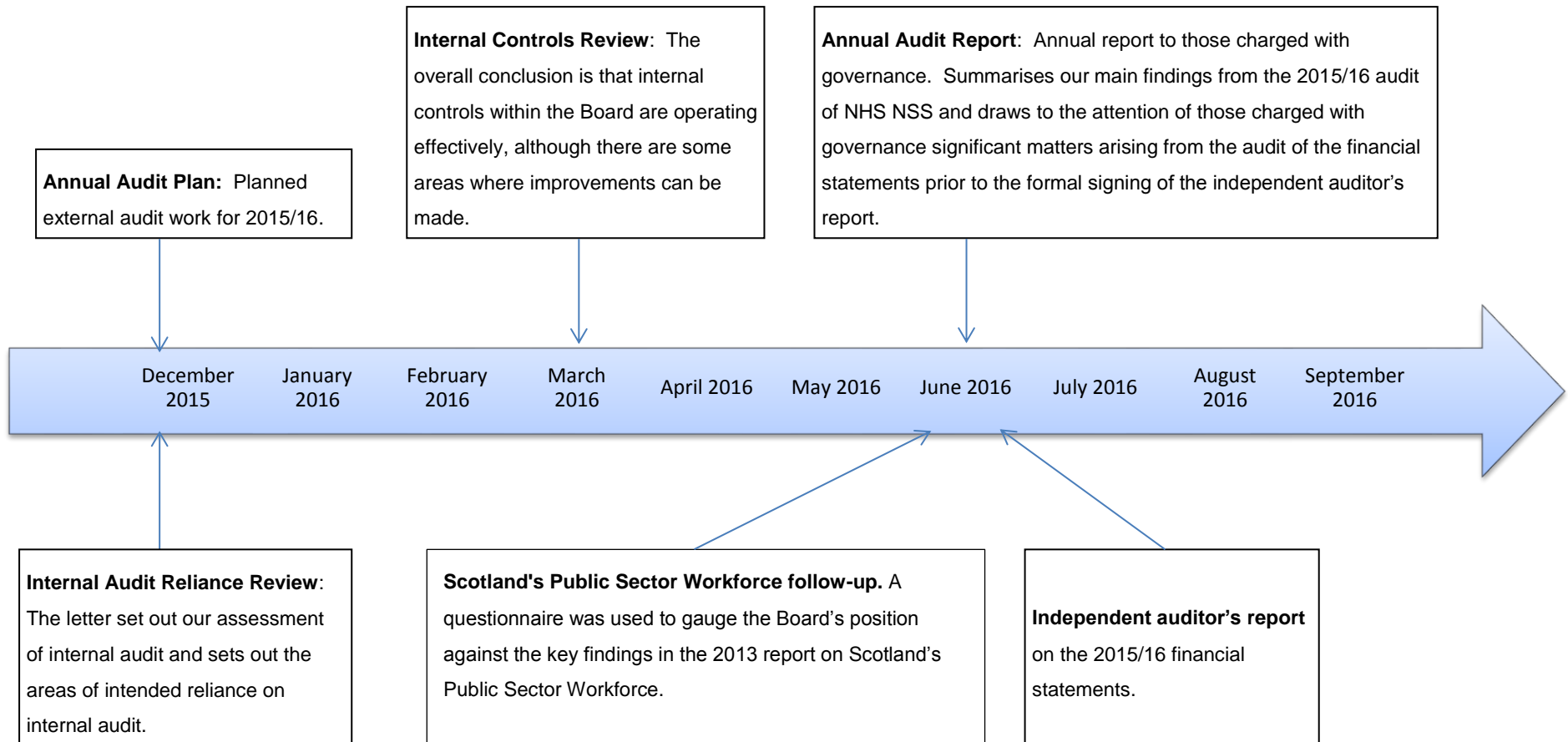
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Management override of controls – ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • We tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. • We reviewed accounting estimates for biases • We tested for significant transactions that are outside the normal course of business. • We carried out focused testing of regularity and cut-off assertions during the financial statements audit. 	<p>We did not identify any issues regarding the potential for management override of controls.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial management – Whilst current projections forecast a breakeven position, until the year end it is not possible to definitively conclude that financial targets have been achieved.</p>	<ul style="list-style-type: none"> • We attended committee meetings and reviewed papers to assess progress. • We monitored updates to the Financial Plan. • We reviewed the financial monitoring reports submitted to the Board. • We monitored outcomes of discussions with SGHSCD. • We reviewed monthly monitoring returns submitted to SGHSCD. 	<p>NHS NSS achieved all of its financial targets for 2015/16. We have concluded that financial management is a sound basis for the preparation of the financial statements.</p>
<p>Electronic Employee Support System – The system is not providing the anticipated levels of functionality, and significant issues have been experienced in a number of modules. There is a risk that if other NHS boards elect to seek an alternative system, NHS NSS will be the only board in Scotland operating eESS while the new system is procured and developed.</p>	<ul style="list-style-type: none"> • We substantive tested starters, changes and leavers. • We monitored the broader NHS Scotland position with regards eESS. 	<p>No issues with the potential to impact on the financial statements were identified from audit testing.</p>
<p>Management of major projects – There is a risk that economies of scale are not realised if public sector participation in SWAN is lower than anticipated, and of increased costs due to contractor delays in the SNBTS development. There is also a risk of slippage against the Board’s capital plan.</p>	<ul style="list-style-type: none"> • We reviewed capital monitoring reports and committee minutes. 	<p>New bodies are being signed up to SWAN. Generally less “noise” surrounding this project. SNBTS subject to minor delay earlier in year but no significant delay. Capital programme was achieved.</p>

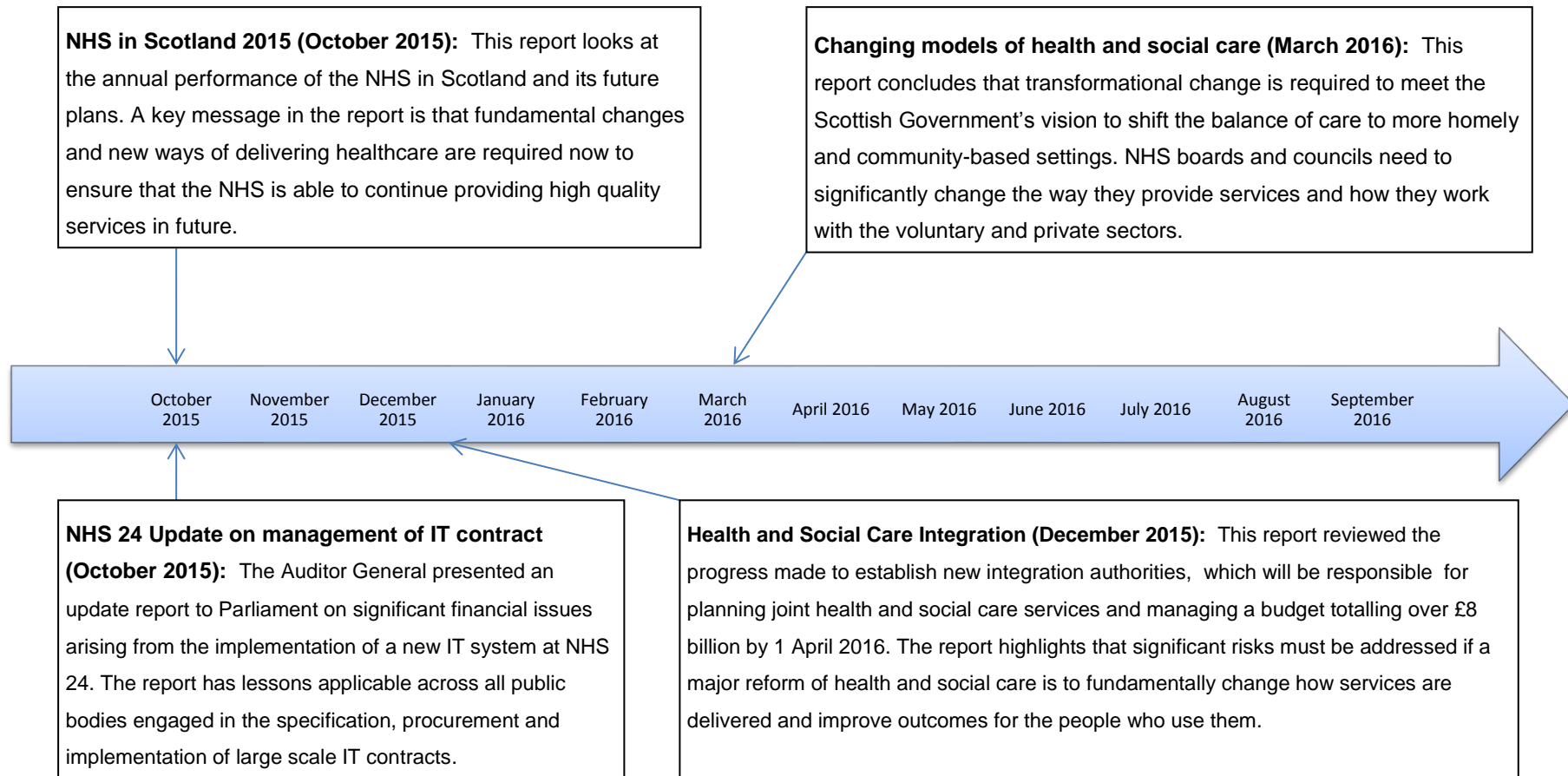
Audit Risk	Assurance procedure	Results and conclusions
<p>Valuations – The financial statements of NHS National Services Scotland include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas. 	<p>Reliance on work of an expert test was satisfactory.</p> <p>A valuation certificate was obtained for the significant capital works on SNBTS.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Workforce planning: NSS faces a significant challenge in maintaining adequate staffing levels in specialist areas where there are national shortages.</p>	<ul style="list-style-type: none"> • We carried out local follow-up work based on the recommendations in the 2013 <i>Scotland's Public Sector Workforce</i> report. • Reliance was placed on the work of internal audit in this area. 	<p>Workforce planning return completed. On the whole satisfactory. Internal audit have agreed an action plan with management to address those issues which require to be addressed. No impact on 2015/16 financial statements.</p>
<p>National Fraud Initiative: The 2014/15 NFI exercise at NSS was delayed due to technical issues with data submission. There is consequently a risk that data matches have not been adequately reviewed or followed up. The final submission for the current NFI exercise is due by the end of February 2016.</p>	<ul style="list-style-type: none"> • We sample tested NHS NSS checks on high priority data matches. • The final NFI questionnaire was submitted by 29 February 2016. 	<p>While NHS NSS did not identify any errors or frauds from the matches provided, there was a slow response and a lack of training and planning for the exercise. No impact on 2015/16 financial statements.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Sickness absence: There is a risk that sickness absence data disclosed in the Strategic Report is inaccurate.</p>	<ul style="list-style-type: none"> • We carried out focused substantive testing during financial statements audit. 	<p>We did not identify any issues regarding the calculation of the sickness absence statistic.</p>
<p>Stakeholder management: There is a risk that NSS 'is unable to support, in a timely manner, critical national and local objectives on health and health & social care due to a lack of planned engagement by NHS NSS in the Scottish public sector's political and professional decision making networks'.</p>	<ul style="list-style-type: none"> • We reviewed reports to the Board and relevant sub-committees. • We reviewed risk management updates to committee. 	<p>Customer Relationship Development team now in place. NHS NSS playing a central role in the development of shared services. No impact on 2015/16 financial statements.</p>

Appendix II: Summary of NHS NSS local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	25	<p>Valuation certificates</p> <p>Issue</p> <p>NSS experienced some difficulty in obtaining a valuation certificate evidencing the value of assets under construction (the new SNBTS national centre).</p> <p>Recommendation</p> <p>For construction projects management should ensure that valuation certificates signed by suitably qualified professionals are obtained in support of all assets under construction included in future balance sheets.</p>	<p>NSS will ensure that valuation certificates are obtained for all future construction projects where an asset under construction remains on the balance sheet at year end.</p> <p>The valuation for other assets under construction are based on current cost, as per accounting policy, and supported by relevant purchase invoices.</p>	<p>Director of Finance and Business Services</p> <p>Immediate</p>

No.	Para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	80	<p>National Fraud Initiative</p> <p>Issue</p> <p>Delay in completing the exercise was attributable, in part, to a lack of training for staff involved. In view of NHS NSS role in countering fraud in NHS Scotland we consider that NFI work should have a higher profile within the organisation.</p> <p>Recommendation</p> <p>That the internal audit function takes on an oversight role and that reports are provided to the Audit and Risk Committee on a regular basis during the course of the periodic NFI exercises.</p>	<p>NHS NSS acknowledges that more could be done to embed the NFI work within business as usual. The process will be reviewed as part of Finance transformation activity during 16/17 to ensure operational management arrangements are effective. Periodic reporting is part of the Fraud Report presented to the Audit & Risk Committee.</p> <p>Internal audit will continue to review this as part of our overall financial controls framework.</p>	<p>Director of Finance and Business Services</p> <p>July 2017</p>

No.	Para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	86	<p>Publication of committee papers</p> <p>Issue</p> <p>A significant amount of the Board's business is transacted through sub-committees. While minutes of the committees are available in Board papers available on the website, committee papers are not available.</p> <p>Recommendation</p> <p>That the Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.</p>	<p>The matter will be discussed by the Board at its meeting on 24th June 2016.</p>	<p>Interim Chief Executive June 2016</p>