

NHS National Services Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

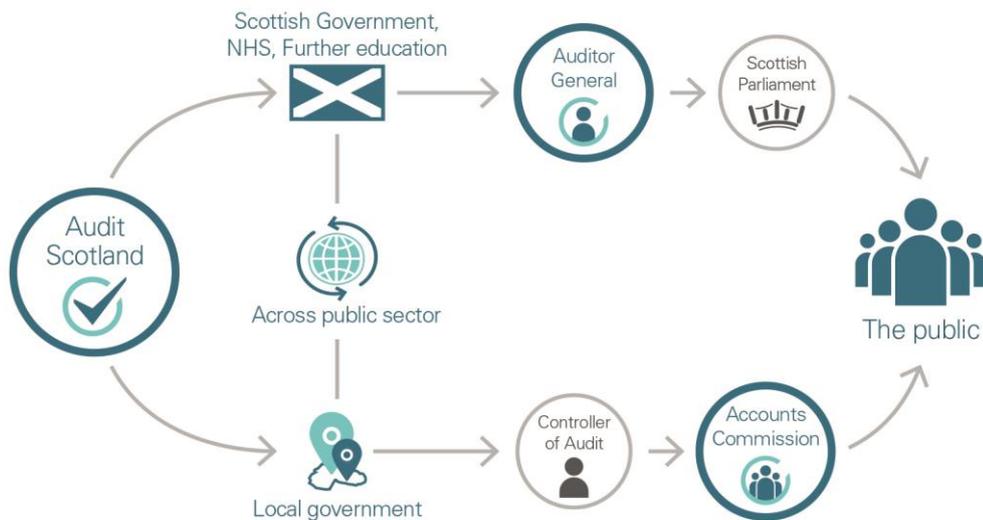
Prepared for NHS National Services Scotland and the Auditor General for Scotland

18 August 2020

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2019/20 annual report and accounts

- 1** The financial statements of NHS National Services Scotland give a true and fair view of the state of affairs of the board as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** NHS National Services Scotland has valued its assets on an appropriate basis and using information provided by professional valuers. We included an emphasis of matter paragraph in the independent auditor's report to draw attention to the impact of Covid-19 on the level of uncertainty over property valuations. The audit opinion is not modified in respect of this matter.
- 3** The impact of Covid-19 led to delays in the accounting and auditing timetables for the 2019/20 annual report and accounts. Submission of the audited annual report and accounts is in accordance with revised Scottish Government timescales.

Financial management

- 4** NHS National Services Scotland had appropriate and effective financial management arrangements in place. It met all its financial targets for 2019/20 and achieved an underspend of £0.111 million against its revenue resource limit.
- 5** Systems of internal control operated appropriately and effectively in 2019/20 with scope for control improvement in some areas. We increased our audit testing of year-end transactions to address the risk that the fast-moving Covid-19 pandemic response could have led to any weaknesses in internal control.
- 6** NHS National Services Scotland has agreed that an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards will be carried out later in 2020.

Financial sustainability

- 7** NHS National Services Scotland had appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium and longer term.
- 8** NHS National Services Scotland achieved its savings target in 2019/20 but some future savings are still to be identified in its financial plan.
- 9** From March 2020, the Covid-19 global pandemic had a significant impact on the focus and priorities of NHS National Services Scotland. The projected financial impact is substantial, estimated at £486 million. Funding to cover this increased expenditure has not yet been confirmed by the Scottish Government, with further amendments to the Scottish budget anticipated later in 2020/21.

Governance and transparency

- 10** NHS National Services Scotland had effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.
- 11** Openness and transparency should be maintained through more timely publication of Board papers on the website; this is particularly important while public attendance at Board meetings is restricted.
- 12** The 2019/20 performance report is significantly improved, providing a more accessible account of performance during the year.

Value for money

- 13** NHS National Services Scotland had an appropriate and effective performance management framework in place which supports the achievement of value for money and continuous improvement in the provision of services.
- 14** NHS National Services Scotland is fulfilling the general equality duty and the public sector equality duty under the Equality Act 2010. The transparency of its equality and diversity webpage could be improved.
- 15** Our planned audit work on assessing the fraud risk in procurement, and on digital transformation has been postponed, to allow the Digital and Security and Procurement, Commissioning & Facilities strategic business units to focus on their Covid-19 response. We plan to include this work in our 2020/21 audit.
- 16** Risks have been identified at Board level regarding significant delays in the General Practice IT re-provisioning programme being undertaken across the NHS in Scotland.

Introduction

1. This report summarises the findings from our 2019/20 audit of NHS National Services Scotland (NHS NSS). The scope of our audit was set out in our Annual Audit Plan presented to the 4 December 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of NHS NSS's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

2. The main elements of our audit work in 2019/20 have been:

- an audit of NHS NSS's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of NHS NSS's key financial systems
- consideration of the four audit dimensions.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NHS NSS has had to respond to the global coronavirus pandemic. This impacted on the final month of the year, including the suspension of non-essential projects and activities, such as capital works, and will continue to have significant impact into financial year 2020/21. NHS NSS has a key role in the NHS response to Covid-19, including the procurement of personal protective equipment

for the NHS and for care homes in Scotland; construction of the Louisa Jordan field hospital at the start of 2020/21, which involved procurement, legal, IT and programme management services; and provision of a range of IT services both internally to NHS NSS and across the wider NHS, including the roll-out of Office 365 to all health boards to facilitate remote working; and the IT systems and support for the Scottish Government's Test and Protect programme. NHS NSS is also responsible for the recruitment of contact tracing staff for this programme.

4. Our planned audit work has had to adapt to these changing circumstances as they relate to the audit of the financial statements and the wider dimensions of audit. Two areas of planned audit work have been postponed so that NHS NSS staff can focus on providing procurement and digital and security services to support NHS Scotland's response to Covid-19 (refer paragraph 85).

Adding value through the audit

5. We add value to NHS NSS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

6. In so doing, we aim to help NHS NSS promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

7. NHS NSS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

8. NHS NSS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

9. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £186,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to NHS National Services Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

The financial statements give a true and fair view of the state of affairs of NHS National Services Scotland as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

NHS National Services Scotland has valued its assets on an appropriate basis and using information provided by professional valuers. The audit opinion includes an emphasis of matter paragraph to draw attention to NHS NSS's disclosure of material uncertainty in the valuation of its property assets due to the impact of Covid-19 on global markets.

The impact of Covid-19 led to delays in the accounting and auditing timetables for the 2019/20 annual report and accounts. Submission of the audited annual report and accounts is in accordance with revised Scottish Government timescales.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual report and accounts are unmodified

15. The Board approved the annual report and accounts for the year ended 31 March 2020 on 14 August 2020. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration report and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

16. We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the impact of Covid-19 on the valuation of land and buildings. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. The Statement of Accounting Policies in the financial statements describes the uncertainty caused. The audit opinion is not modified in respect of this matter. Further information is contained in [Exhibit 3, no.1](#) below.

17. The availability of accounting records and the extent of information and explanations that we required for our audit were affected by the Covid-19 pandemic. We were able to undertake alternative procedures where necessary. For example:

- We were unable to access title deeds held at the Central Legal Office to confirm ownership of land and buildings. However, as there were no significant transfers of ownership during 2019/20, we have taken assurance from prior years' confirmation of ownership.
- We did not receive the requested third-party confirmation from the Royal Bank of Scotland for one bank account balance as at 31 March 2020. We reviewed the bank statement for that date as part of the working papers supplied by NHS NSS.

The sign-off of the annual report and accounts was delayed but is in accordance with revised government timescale

18. As a result of the impact of Covid-19 the Scottish Government extended the deadline for submission of health board audited annual report and accounts from 30 June 2020 to 30 September 2020. NHS NSS was unable to deliver the unaudited annual report and accounts in line with our agreed audit timetable. The accounts preparation and audit process are always resource intensive for finance staff and Covid-19 created additional pressures. This included processing significantly increased expenditure relating to NHS Scotland's pandemic response. NHS NSS was able to support home working for all Finance staff during the period of the outbreak. NHS NSS also rolled out Office 365 to all health boards to support remote working. Submission of the audited annual report and accounts is in accordance with revised Scottish Government timescales.

19. The Scottish Government also agreed that health boards could streamline the narrative in the 2019/20 annual report and accounts, to ease pressure on NHS staff as boards responded to the Covid-19 pandemic. NHS National Services Scotland had already invested time and effort in developing its annual report management commentary and has included full commentary in the annual report and accounts. The only streamlined narrative is the inclusion of a cross reference to where the Trade Union Facility Time disclosure will be published, rather than inclusion of the full disclosure in the annual report and accounts.

Overall materiality is £7.977 million

20. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

21. On receipt of the unaudited annual report and accounts we reviewed our materiality levels, and these are summarised in [Exhibit 2](#). The revised materiality levels did not require a change in our audit approach.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£7.977 million
Performance materiality	£4.786 million
Reporting threshold	£100 thousand

Source: NHS NSS unaudited Annual Report & Accounts for the year to 31 March 2020

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

22. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

23. We identified additional risks resulting from the impact of Covid-19, regarding payments made in advance to suppliers, to secure orders of personal protective equipment; and the significant increase in inventories at year end. Our audit work to address these risks included increased cut-off testing of expenditure before and after the year end: we found one instance where a supplier invoiced NHS NSS for 100% rather than the agreed 50% advance payment for an order of personal protective equipment, and the full invoice of £5.5 million was paid. On identifying this, the supplier returned the 50% overpayment to NHS NSS until the goods were received, at which point the remaining 50% was invoiced and paid. This did not require an adjustment to be made to the annual report and accounts.

24. We have no other issues to report from our work to address the main risks of material misstatement.

Significant findings to report on the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

26. We have no significant findings to report around the qualitative aspects of the annual report covering accounting policies, accounting estimates and financial statements disclosures. We are pleased to note the improvements in the 2019/20 management commentary in the Performance Report (see paragraph 67). The significant findings requiring audit adjustments to the financial statements are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Material valuation uncertainty</p> <p>The valuer included a material valuation uncertainty disclosure in the valuation report as at 31 March 2020, regarding its valuation of NHS NSS's land and buildings assets. The disclosure highlighted the impact of Covid-19 on global markets and indicated that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.</p>	<p>NHS NSS added a disclosure on this uncertainty in section 30 of the Statement on Accounting Policies, "Key sources of judgement and estimation uncertainty".</p> <p>The audit opinion includes an emphasis of matter paragraph to draw attention to NHS NSS's disclosure of material uncertainty in the valuation of its property assets due to the impact of Covid-19 on global markets. The audit opinion is not modified in respect of this matter.</p>

2. Classification adjustment: Other operating expenditure

Total expenditure rather than non-pay expenditure was used for the classification of Procurement, Commissioning & Facilities (PCF) expenditure in Note 3b: Other Operating Expenditure, leading to an overstatement of the Clinical Services costs and an understatement of Non Clinical Services costs of £4.5 million in Note 3b and the Statement of Comprehensive Net Expenditure.

These costs were moved from Clinical Services expenditure to Non Clinical Services expenditure in the revised accounts. The adjustment had no effect on the net financial position of NHS NSS at 31 March 2020.

3. Classification adjustment: payables note

Accruals in Note 12: Trade and Other Payables included £3.8 million of balances in respect of NHS Non Scottish Bodies, which should be disclosed separately within the note. Accruals were therefore overstated and NHS Non Scottish Bodies payables understated by £3.8 million.

These balances were moved from Accruals to NHS Non Scottish Bodies in Note 12 in the revised accounts. The adjustment had no effect on the net financial position of NHS NSS at 31 March 2020.

4. Classification adjustment: Prepayments

£7.7 million debit balances (prepaid orders for personal protective equipment) were included in Trade Payables in the Statement of Financial Position, which effectively understated both Trade Payables (creditors) and Trade Receivables (debtors) in the Statement of Financial Position.

Debit balances were moved from Trade Payables to Trade Receivables (Prepayments); this increased both Trade Payables and Trade Receivables by £7.7 million in the Statement of Financial Position. The adjustment had no effect on the net financial position of NHS NSS at 31 March 2020.

5. Pharmacy rebate in debtors control account

A pharmacy rebate in the debtors control account at the year end required adjustment to strip it out of the NHS NSS accounts. Rebates are passed on to the health boards and are not included in NHS NSS's financial statements.

The rebate was removed from the accounts. Cash and Cash Equivalents decreased by £0.1 million; Trade and Other Receivables decreased by £0.9 million (£0.3 million increase in Accrued Income and £1.2 million decrease in Other Receivables); Trade and Other Payables decreased by £1 million.

The adjustment had no effect on the net financial position of NHS NSS at 31 March 2020.

6. Remuneration and staff report: outward secondees

We identified that employee costs for outward secondees in the trial balance was £0.2 million more than the costs disclosed in the Remuneration Report and Staff Report, due to additional secondees costs being added after the Remuneration Report and Staff Report was drafted.

The Remuneration Report was adjusted, increasing Outward Secondees costs from £1.5 million to £1.7 million. This did not affect employee expenditure in the Statement of Comprehensive Net Expenditure where these costs were already included.

Source: NHS NSS Annual Report and Accounts 2019/20

27. In the notes to the financial statements, Note 7a: Property, Plant & Equipment and Note 6: Intangible Assets each contain a line for transfers between categories of assets. Testing indicates that these are corrections of miscoding of capital expenditure. Although not significant at £0.07 million for Property, Plant & Equipment and £0.15 million for Intangible Assets, these errors may indicate a need for further training in coding of capital expenditure. Correction of miscoding takes up additional officer time, and the resulting transfers in the notes to the financial statements prompt additional audit queries, which require further officer time to answer.



Recommendation 1

Refresher training on capital accounting should be held with relevant SBU staff to agree appropriate account codes for each capital project and how to identify the revenue/ capital split of project spend.

28. There was a further minor adjustment of £0.07 million relating to impairment of a surplus asset, which affected the Statement of Changes in Taxpayers' Equity but had no effect on the financial position of NHS NSS at 31 March 2020.

Identified misstatements of £17.3 million were adjusted in the accounts; these were more than our performance materiality and we reviewed our audit approach

29. Total misstatements identified, summarised above in [Exhibit 3](#), were £17.3 million. As this amount is above our performance materiality level, we reviewed our audit approach to consider if additional testing was required. We reviewed the full population of ledger transactions in these areas to determine if there was scope for material misstatements. The identified misstatements are mostly classification errors which have no impact on net expenditure in the Statement of Comprehensive Net Expenditure or net assets in the Statement of Financial Position. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

30. The extent of adjustments required to the annual report and accounts may be related to the increased pressure on Finance staff this year during the accounts preparation period. There were also some incomplete or missing disclosures in the annual report and accounts submitted for audit. We have previously reported on intense workload pressures leading to incomplete areas in the accounts submitted for audit, with subsequent adjustments required (refer [Appendix 1](#), prior year action 1). Building in time for management review of the unaudited annual report and accounts in the timetable for accounts preparation may reduce the extent of adjustments required in future.



Recommendation 2

The unaudited annual report and accounts submitted for audit should be reviewed by management to ensure that all required content is included, and that classification of significant areas is correct.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

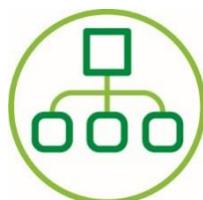
32. There were several typos, presentation errors and incomplete disclosures in the unaudited accounts submitted for audit. The presentation and disclosures have been updated in the audited annual report and accounts.

Good progress was made on prior year recommendations

33. NHS National Services Scotland has made good progress in implementing our prior year audit recommendations. Covid-19 has had an impact on some of the agreed management actions. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

NHS National Services Scotland had appropriate and effective financial management arrangements in place. It met all its financial targets for 2019/20 and achieved an underspend of £0.111 million against its revenue resource limit.

Systems of internal control operated appropriately and effectively in 2019/20 with scope for control improvement in some areas. We increased our audit testing of year-end transactions to address the risk that the fast-moving Covid-19 pandemic response could have led to any weaknesses in internal control.

NHS National Services Scotland has agreed that an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards will be carried out later in 2020.

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

NHS National Services Scotland operated within its Revenue Resource Limit (RRL) and within its one per cent flexibility

34. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. As illustrated in [Exhibit 4](#), NHS NSS operated within all limits during 2019/20.

Exhibit 4

Performance against resource limits in 2019/20

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	502.464	502.353	0.111
Non-core revenue resource limit	7.860	7.860	0
Total revenue resource limit	510.324	510.213	0.111
Core capital resource limit	11.008	10.929	0.079
Non-core capital resource limit	0	0	0
Total capital resource limit	11.008	10.929	0.079
Cash requirement	549.606	549.605	0.001

Source: NHS NSS Annual Report and Accounts 2019/20

35. The financial year 2019/20 provided the first opportunity for NHS boards to exercise annual flexibility within one per cent of their budget. This removes the requirement for boards to achieve financial balance annually and instead boards are required to achieve a break-even position over a rolling three-year period. NHS National Services Scotland did not plan to or need to exercise this flexibility in 2019/20.

Budget processes were appropriate

36. NHS NSS achieved an underspend of £0.111 million (0.02%) against its 2019/20 revenue resource limit of £510.324 million. This outturn is consistent with the 2019/20 NHS NSS budget which forecast a breakeven position.

37. NHS NSS received a total capital allocation of £11.008 million. An underspend of £0.079 million was recorded against this (0.7%), which was in line with the budgeted breakeven position.

38. We reviewed NHS NSS's budgetary processes including budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we observed that senior management and members receive regular and accurate financial information on NHS NSS's financial position.

39. NHS National Services Scotland has appropriate budget setting and monitoring arrangements.

Efficiency savings of £19.3 million were reported

40. In 2019/20, NHS National Services Scotland reported it achieved efficiency savings of £19.3 million, exceeding the required savings target of £17.4 million (5 per cent of baseline budget). NHS NSS identified 85 per cent of savings on a recurring basis with the remainder on a non-recurring basis (15 per cent). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Funding allocations

41. We reviewed allocation adjustments in 2019/20 to: confirm what in-year allocation adjustments were for; ensure that underspends were properly communicated to the Scottish Government where NHS NSS had requested an allocation adjustment; and ensure that the final allocation letter from the Scottish Government agreed to the funding in NHS NSS's financial statements.

42. NHS NSS's 2019/20 funding allocations were adjusted by £5 million during the year as shown in [Exhibit 5](#); this is a much lower level of adjustment than in previous years (£22 million in 2018/19). This reduced NHS NSS's overall allocation. Returning these amounts to the Scottish Government is part of its overall budget management for NHS Scotland.

43. Allocation changes also include £10.3 million transfers across budget heads: £9 million in respect of depreciation charges in the year transferred from core to non-core and £1.3 million in respect of infrastructure support transferred from revenue to capital.

Exhibit 5 Allocations Review

Type of adjustment	Description	Amount £m	% of total adjustment
Returned Underspend	CAR-T return	1.700	
	Near me contract costs – Covid-19	0.478	
	ATOS underspend	0.210	
	Support SCOTCAP project extension	0.066	
	NIPT Implementation	0.193	
		2.647	53%
Slippage	CHI and Child Health adjustment	0.321	
	Transformation change programme	0.118	
		0.439	9%
Savings	Reallocation of National Boards savings	0.289	
			0.289
SG Error	NES elective centre workforce	0.128	
	NHSBT reversal staff costs	0.257	
	PACS Refresh and Phase 3 reversal	0.452	
	GP Minimum earnings expectation	0.262	
		1.099	22%
Adjustment for work carried out by other Boards	ScotSTAR 2019/20	0.395	
	Health Technology informatics	0.118	
		0.513	10%
Total		4.987	100%

Source: NHS NSS Allocations tracker 2019/20

Financial systems of internal control operated effectively

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

45. Our management letter presented to the Audit and Risk Committee on 28 May 2020 concluded our findings from the review of systems of internal control. We

concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS NSS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

46. We increased our audit testing of year-end transactions to address the risk that the fast-moving Covid-19 pandemic response could have led to any weaknesses in internal control. We did not find any significant control weaknesses in this testing.

Shared systems

47. The NHS in Scotland procures a number of service audits covering shared systems. NHS Ayrshire & Arran procured a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance report in relation to the NSI eFinancials was unqualified.

48. NHS National Services Scotland procured service audits covering primary care payments (Practitioner Services), the national IT services contract and the payroll services provided by NHS NSS to other boards. Each of these service auditor assurance reports were qualified. This was because of areas where there was insufficient documentary evidence of the checks performed in relation to verification and reconciliation, rather than controls being absent or not operating. The controls weaknesses and exceptions raised within the reports will be addressed as part of NHS NSS's continuous improvement programme of work. This matter is disclosed in the Governance Statement.

49. We have reviewed the work of the service auditor for Practitioner Services and concluded that the work was performed satisfactorily, and that assurance could be placed on their work by user auditors. We issued an assurance letter confirming this to other health board external auditors.

Internal audit

50. NHS National Services Scotland's internal audit function is carried out by KPMG LLP. Internal audit have concluded their 2019/20 audit work and presented their Annual Audit Report, which included the annual internal audit opinion, to the June 2020 Audit and Risk Committee.

51. We reviewed NHS NSS's internal audit function to determine the extent to which we could use their work in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). We concluded that we could rely on the work of internal audit where this would reduce our own audit testing or reduce duplication. We had identified financial controls work on inventories as a potential area of reliance for 2019/20. We did not place reliance on this work it was postponed, to allow National Distribution Centre staff to focus on the Covid-19 response (NDC procurement having a key role in this). Internal audit's work was re-scoped to cover SNBTS stock controls instead. It was reported in June with an assurance rating of "Significant assurance with minor improvement opportunities".

52. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required once every five years. This requirement was introduced in 2013. The NHS NSS internal audit service has not yet had an external quality assessment carried out. We recommended that NHS NSS should arrange an external review of internal audit's compliance with PSIAS: we have been informed that this will be carried out by the end of 2020.

Standards of conduct for prevention and detection of fraud and error

53. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS National Services Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, NHS NSS is responsible for

ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

54. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions (which comprise the All Staff Code of Conduct) and the Standing Orders. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

55. Appropriate arrangements were in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

NHS National Services Scotland had appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium and longer term.

NHS National Services Scotland achieved its savings target in 2019/20 but some future savings are still to be identified in its financial plan.

From March 2020, the Covid-19 global pandemic had a significant impact on the focus and priorities of NHS National Services Scotland. The projected financial impact is substantial, estimated at £486 million. Funding to cover this increased expenditure has not yet been confirmed by the Scottish Government.

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

Financial planning

56. Health boards have a three-year planning and performance cycle, which supports the delivery of the Scottish Government's Health and Social Care Medium Term Financial Framework. Boards are required to set out a breakeven position over the three-year planning period. Where this requirement is met, boards will have flexibility to report under or overspends of up to one percent of boards' core revenue resource funding. NHS NSS's financial plan includes a break-even projection in each year of the cycle with no need for any flexibility.

57. NHS National Services Scotland's three-year Annual Operating Plan 2020 to 2023 was approved by the Board on 26 March 2020. It is supported by a three-year financial plan and a five-year capital plan. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth. The plan recognises the significant financial challenges facing NHS NSS.

The existing financial plan should be revised following the Covid-19 pandemic

58. From March 2020, the Covid-19 global pandemic had a significant impact on the focus and priorities of NHS National Services Scotland. NHS NSS is responsible for national procurement, including personal protective equipment supplies and the construction of the Louisa Jordan hospital. It is also responsible for the IT systems related to the Scottish Government's Test and Protect programme. The projected financial impact on NHS National Services Scotland is substantial, estimated at £486 million. Funding to cover this increased expenditure has not yet been confirmed by the Scottish Government. The Board is monitoring the financial impact of Covid-19 and will revise its financial plans accordingly.

Efficiency savings are being achieved but some future savings are still to be identified

59. NHS National Services Scotland is required to achieve efficiency savings of £16.75 million in 2020/21 (5% of baseline budget). In recent years NHS National Services Scotland has had a good track record in achieving recurring savings; its financial plan assumed 80% of savings will be recurring and 20% non-recurring (see [Exhibit 6](#)). The plan included a gap of £1.2 million savings still to be identified in 2020/21 (and £1.1 million in each of the two following years).

Exhibit 6 Savings forecast 2020/21 to 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m
Recurring	14.237	14.443	14.646
Non-recurring	2.513	2.549	2.585
Total	16.750	16.992	17.231
% of Baseline allocation	5%	5%	5%

Source: NHS National Services Scotland Board papers 26 March 2020

60. In addition to the efficiency savings noted above, NHS NSS's funding allocation includes an assumed contribution to the national boards' £15 million savings requirement. In 2019/20 and earlier years, NHS National Services Scotland was asked to contribute more than its original share of these savings as some other national boards have been unable to deliver the required savings. This creates additional pressure on NHS NSS.

61. National boards' collaboration was intended to deliver these efficiencies through service transformation, but progress continues to be slow. There is little national appetite to drive forward collaborative transformation, although the Covid-19 pandemic has created more acceptance of new ways of working. It is unclear whether this will translate into more collaboration in future.

Part 4

Governance and transparency



Main judgements

NHS National Services Scotland had effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.

Openness and transparency should be maintained through more timely publication of Board papers on the website; this is particularly important while public attendance at Board meetings is restricted.

The 2019/20 performance report is significantly improved, providing a more accessible account of performance during the year.

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

Overall governance and transparency arrangements were appropriate

62. Overall NHS National Services Scotland had appropriate and effective governance arrangements. There was no significant change to existing arrangements during 2019/20, prior to the response to the Covid-19 pandemic in March 2020. The governance and transparency arrangements we consider include:

- board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of board and committees
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

The Covid-19 pandemic had a profound effect on governance arrangements from March 2020

63. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in NHS NSS's annual report and accounts. These were significant and allowed the organisation to cope with the unprecedented nature and scale of the threat to its communities and staff. Some of the amendments to the governance arrangements include:

- The suspension of committee meetings, other than Audit and Risk Committee meetings to consider business related to the annual report and accounts (held virtually using Microsoft Teams)
- A move to more frequent (monthly) Board meetings with shorter agendas focused on decision making (held virtually using Microsoft Teams).
- Amendment to the scope of internal audit activity to allow the Procurement, Commissioning & Facilities strategic business unit to focus on its Covid-19 response, including procurement of personal protective equipment and procurement of the Louisa Jordan field hospital.

64. From our observation of Board meetings and participation in Audit and Risk Committee meetings, we concluded that these amended arrangements supported continued good governance and accountability.

Openness and transparency

65. Openness and transparency in how a body operates and makes decisions is required in order to support understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how NHS NSS is taking decisions and how it is using resources such as money, people and assets.

66. NHS NSS has considered the impact of its changed governance arrangements on openness and transparency, as Board meetings are public, but public attendance is not possible while meetings are held virtually using a secure application. Board papers continue to be publicly available on the NHS NSS website; however, we noted that Board papers for the June 2020 meeting had not been published by the date of drafting this report (mid-July), and some references to Board meetings were out of date. This may undermine the Board's transparency if the main source of publicly accessible information is not kept up to date.



Recommendation 3

NHS National Services Scotland should ensure that openness and transparency are maintained through timely publication of Board papers and minutes on the website.

The performance report was significantly improved in 2019/20

67. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the body's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

68. We recommended last year that NHS NSS should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications. The management commentary in the 2019/20 performance report is significantly improved and presented in the corporate style, with input from the Communications team and Finance team. It reflects the wide range of the organisation's activities, giving case study examples and using easy to understand language and graphics. It is focused on 2019/20 performance (previously the narrative was more forward looking) and financial performance links better to the financial statements.

Part 5

Value for money



Main judgements

NHS National Services Scotland had an appropriate and effective performance management framework in place which supports the achievement of value for money and continuous improvement in the provision of services.

NHS National Services Scotland is fulfilling the general equality duty and the public sector equality duty under the Equality Act 2010. The transparency of its equality and diversity webpage could be improved.

Our planned audit work on assessing the fraud risk in procurement, and on digital transformation has been postponed, to allow the Digital and Security and Procurement, Commissioning & Facilities strategic business units to focus on their Covid-19 response. We plan to include this work in our 2020/21 audit.

Risks have been identified at Board level regarding significant delays in the General Practice IT re-provisioning programme being undertaken across the NHS in Scotland.

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

Performance management

69. The Scottish Government monitors how NHS NSS performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in NHS NSS's Operational Delivery Plan (ODP). Examples include 95% delivery to boards of the national SLA for business as usual services on an annual basis and payment of approximately £2.5 billion to over 8,000 primary care practitioners to agreed standards of accuracy and timeliness.

70. The Board is kept informed of performance across all areas. The detailed review and scrutiny of performance is delegated to the Finance, Procurement and Performance Committee, which met four times during 2019/20. We review Committee and Board papers and minutes to inform our assessment of how well NHS NSS is scrutinising performance.

71. Each meeting of the Finance, Procurement and Performance Committee receives a financial performance report and an ODP performance report, covering the 60 ODP indicators used to measure performance. The final 2019/20 ODP monitoring report in May 2020 was presented to the Board under the amended governance arrangements.

72. We concluded that the NHS NSS had an effective performance management framework in place helping it achieve value for money and continually improve how it delivers services.

Performance targets are being met

73. The 2019/20 annual report and accounts include an up-to-date position at the end of March 2020 on NHS NSS's performance against its ODP targets.

Exhibit 7

Overall performance against 2019/20 targets



Source: NHS National Services Scotland Annual Report and Accounts 2019/20

74. 55 of the 60 performance targets in 2019/20 were met or exceeded (green) as shown in [Exhibit 7](#). This includes 99.9% accuracy of payments to primary care contractors against a target of 95%; 96% tested and validated equipment for reusable medical devices against a target of 90%; £60.3 million delivered procurement savings against a target of £60 million; and 98% of goods worth £160 million delivered on time and in full through the National Distribution Centre.

75. The 5 targets not achieved are:

- progress of the GP IT re-provisioning programme (see paragraph 90);
- supporting the CHI/Child Health/GPPRS replacement programme (see paragraph 91);
- releasing the first ISD official statistics social care publication by 31 March 2020 (the first publication was released in June. Data issues mean future publication date is under review);
- producing 6 co-designed stories across CPPs, third sector and local authorities that demonstrate impact of health and social care integration (Covid-19 work has taken over most of the work being undertaken by LIST analytical staff and the customers that they work with);
- designing and disseminating a refined set of analyses of social care data by March 2020 (Data has been uploaded and analyses developed; following demonstration of this, some changes were required).

76. Three of these targets are now the responsibility of Public Health Scotland following the establishment of the new body on 1 April 2020.

Public Health Scotland

77. On 1 April 2020, Public Health and Intelligence SBU staff and activities (which included Health Protection Scotland and Information Services Division) transferred to Public Health Scotland: approximately 20% of National Services Scotland staff. A small number of staff joined NHS NSS from Health Scotland, as the corporate services they work in will now be provided by NHS NSS (see paragraph 78). NHS NSS established the "Enabling Public Health Scotland" programme to apply programme management methodology to managing the transition of staff and

services to the new body. Staff engagement has continued throughout the process and the Board has been kept updated. The transition has been successfully delivered; further organisational change activity is expected in the new body.

78. NHS NSS will provide shared corporate services (IT, finance & legal services, HR, procurement and facilities management) to Public Health Scotland. This will provide an opportunity to demonstrate the value of its shared services offering to other boards.

Equality and Diversity

79. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self evaluation and continuous improvement.

80. As part of our consideration of best value we reviewed how NHS NSS demonstrates it is fulfilling the general equality duty and the public sector equality duty under the Equality Act 2010. NHS National Services Scotland (NHS NSS) has developed an approach to mainstreaming equalities and reporting its progress.

81. A corporate Equality and Diversity Steering Group meets quarterly and comprises members from the NHS NSS Strategic Business Units, Joint Trade Unions, Corporate Services and NHS NSS staff networks. It is chaired by the NHS NSS Head of Equality and Engagement and it oversees the progress achieved against the NHS NSS Equality Outcome Plan and the eleven equality outcomes which were set in 2017. Details of the progress made against these outcomes is set out within the NHS NSS Mainstreaming Equalities and Equality Outcomes Progress Report. This report and other information on equality and diversity is available on the NHS NSS website. However, some report references and hyperlinks on this site appear to be out of date, and few equality impact assessments are publicly available there. Updating these areas would increase transparency.

82. NHS NSS advances equality and diversity internally and externally. New staff are given a corporate induction in which equality and diversity is a key feature. NHS NSS has been improving the work experience of NHS NSS staff with an aim to minimise discrimination and to encourage reporting of discrimination where it does occur. As a result, since reporting in 2017 there has been an improvement in staff disclosing their protected characteristics. NHS NSS has two staff equality networks, LGBT+ and Disability, whose co-ordinators are members of the NHS NSS equality and diversity steering group.

83. NHS NSS has a prominent equality and diversity section on its website. The Head of Equality and Engagement for NHS NSS works with the Scottish Health Council, third sector organisations and the NHS equality lead network to ensure that NHS NSS engages with and reaches those who require NHS NSS information in alternative formats. This includes working closely with organisations such as DeafScotland, Royal National Institute of Blind People, Age Scotland, Commission for Racial Equality and Business Disability Forum. However, this was only apparent through discussion with NHS NSS staff and not from a review of the website. The availability of information in other formats could be more clearly publicised on the website.

84. There is scope for NHS NSS to improve transparency in terms of equality and diversity. It could do this by:

- Continuing to make progress against the eleven equality outcomes and compliance with the Equality Act 2010. Ensure equalities and progress against the equality outcomes are reported to and considered by the NSS NHS Board.

- Updating the equality and diversity page of the NHS NSS website to include clearer links to the most up-to-date documentation, for easier navigation by website users.
- Regularly publishing updated lists of completed equality impact assessments on the equality and diversity page of the website.
- Promoting awareness and understanding of equality and diversity across the organisation and on the website to make the public aware of, for example, alternative formats of information.
- Ensuring that equality and diversity issues are addressed in continuing professional development for all staff.



Recommendation 4

NHS National Services Scotland should ensure that its equality and diversity web page is kept up to date, including clear links to the most recent version of documents required under the Equality Act 2010. Further improvements could be made by publishing equality impact assessments and highlighting the availability of information in other formats.

Our planned audit work on procurement and digital transformation has been postponed

85. Two areas of planned audit work set out in our Annual Audit Plan 2019/20 were postponed, as the Digital and Security (DaS) and Procurement, Commissioning & Facilities staff were extremely busy supporting the NHS Scotland response to Covid-19.

86. We had started work to assess the risk of fraud in relation to procurement and the effectiveness of NHS National Services Scotland's arrangements for addressing this risk. All public sector auditors were asked to review this area in either 2019/20 or 2020/21. We will revisit this work in our 2020/21 audit.

87. In Digital and Security, we had intended to review plans for the operational delivery of cloud-based services including the in-house 24/7 wrap around support; and review plans for the management of a potential capacity risk. We will revisit this risk as part of our 2020/21 audit planning; if it is still considered an audit risk, we will carry out the postponed audit work from 2019/20.

88. Digital and Security has a key role in the NHS response to Covid-19, including accelerated roll out of Microsoft Teams to more than 160,000 NHS staff (completed in just two weeks, having been originally scheduled over a number of months); working with the National Cyber Security Centre to combat cyber security threats; leading on digital aspects of Covid-19 testing and contact tracing to support Public Health Scotland.

89. Before we paused our DaS audit work, we did note progress against our recommendation that NHS NSS should document its overall approach to ICT contract procurement and management and consider knowledge transfer and succession planning in this area. We also noted that NHS NSS was one of the first health boards to receive an audit of its compliance with the Network and Systems Information Systems Regulations 2018. NHS NSS achieved 82% compliance which is a very positive result, indicating that overall, security is well managed. The report noted several areas of good practice including governance, staff awareness programme, supply chain risk management, and cyber security team development. An action plan is being drafted to address areas of non-compliance.

90. Through observation of NHS NSS Board meetings, we noted risks flagged at Board level regarding significant delays in the GP IT re-provisioning programme. All 3 suppliers are behind schedule and one has reported a further significant delay. The earliest estimated deployment of the new GP IT solution is the summer of 2021. NHS National Services Scotland is responsible for procuring the national framework contract and maintains oversight of major IT programmes. Under the proposed governance structure, the NHS Scotland GP IT Service Management Board will have oversight of the new GP IT Contract Management Board (chaired by NHS NSS) which will be responsible for managing the 3 suppliers. We will continue to monitor progress of this programme as reported to the NHS NSS Board.

91. The Community Health Index/ Child Health Systems/GP Patient Registration System transformation programme (CHI/CHS/GPPRS) was, in common with other major IT programmes, paused by the Scottish Government for a period, and has now re-started with a revised timescale. The programme's recent Gateway Review assessed its status as amber/green ("Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery."). This programme was originally flagged as high risk, as it links to many systems used by all health boards in Scotland. We will continue to monitor progress of this programme as reported to the NHS NSS Board.

92. Internal audit is currently auditing NHS NSS's programme management of three major ICT programmes (GP IT re-provisioning; CHI/CHS; and Office365) as part of their 2020/21 audit. We have not duplicated the scope of this work and will take account of the findings in due course when the report is finalised.

National performance audit reports

93. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 a number of reports were published which are of direct interest to NHS NSS and are highlighted in [Appendix 3](#).

94. The NHS Overview Report on the 2019/20 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2021.

95. Audit Scotland is reviewing its future work programme in light of the Covid-19 pandemic. Key topics under consideration include the economic and fiscal consequences of Covid-19 and public service adaptation in response to Covid-19.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital accounting</p> <p>The accounting entries for “transfers between categories” of non-current assets in the financial statements are all corrections of mis-coded capital expenditure. While not material in value, they represent errors which require subsequent correction and attract audit queries which Finance staff must take time to address. Avoiding these errors in the first place would save time; the Finance team recognises the scope for improvement.</p> <p>Risk – constrained Finance resources are wasted in correcting mis-coded expenditure and then addressing audit queries on these transactions and balances.</p>	<p>Refresher training on capital accounting should be held with relevant SBU staff to agree appropriate account codes for each capital project and how to identify the revenue/ capital split of project spend.</p> <p>Paragraph 27</p>	<p>Financial governance and control team will review all new capital programmes and provide advice on the treatment of the expenditure and the classification of the asset before the project begins.</p> <p>The team will also provide training sessions on capital accounting for all Business Finance and SBU staff involved in capital programmes.</p> <p>Associate Director of Finance November 2020</p>
2	<p>Classification errors and missing disclosures in unaudited accounts</p> <p>Significant classification errors were identified in the primary statements and notes to the accounts and required adjustment.</p> <p>Several disclosures were incomplete in the annual report and accounts submitted for audit.</p> <p>Risk – the accounts are materially misstated and do not comply with NHS accounting requirements.</p>	<p>The unaudited annual report and accounts should be reviewed by management to ensure that all required content is included before submission for audit and that classification of significant areas is correct.</p> <p>Paragraph 30</p>	<p>A lessons learned session will be carried out to address the timing and availability of information required for the accounts.</p> <p>The timetable for production and audit of the annual accounts will allocate the appropriate time for review of the statements prior to submission.</p> <p>Associate Director of Finance Operations March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Transparency: NHS NSS website</p> <p>The amended governance arrangements due to Covid-19 include holding meetings virtually via a secure application. This means that public attendance at Board meetings is not possible. It is therefore particularly important that Board papers are published on the website on a timely basis. We noted that the June papers had not been published at the time of drafting this report (mid-July).</p> <p>Risk – NHS NSS is not transparent in its decision-making regarding the use of public funds and the provision of public services.</p>	<p>NHS National Services Scotland should ensure that openness and transparency are maintained through timely publication of Board papers on the website.</p> <p>Paragraph 66</p>	<p>The Board papers for the meeting in June were added to the website before the end of July.</p> <p>Board papers will be published in a timely manner going forward.</p> <p>Committee Services Manager July 2020</p>
4	<p>Equality and diversity</p> <p>The dedicated equality and diversity page on the NHS NSS website is easy to find and contains links to a good range of information. However, many references and hyperlinks to documents are out-of-date. Improvements could be made to make the webpage more understandable and transparent, including publishing completed equality impact assessments and highlighting the availability of information in alternative formats.</p> <p>Risk – NHS NSS may not be seen to be giving due attention to equality and diversity if relevant information is not kept up to date and accessible on the website.</p>	<p>NHS National Services Scotland should ensure that its equality and diversity web page is kept up to date, including the most recent version of documents required under the Equality Act 2010. Further improvements could be made by publishing equality impact assessments and highlighting the availability of information in other formats.</p> <p>Paragraph 84</p>	<p>NSS will review responsibilities in relation to its equality and diversity web page to ensure it is kept up to date and provides access to the most recent documents in a range of accessible formats.</p> <p>Head of Equality and Engagement Associate Director Strategy, Performance and Communications October 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
Prior year 1	<p>Preparation of unaudited accounts</p> <p>The NHS accounts preparation and audit period creates intense workload pressures. Finance staff worked hard to prepare the accounts and support the audit team, but there were some incomplete areas in the 2018/19 accounts submitted for audit, with subsequent adjustments required.</p>	<p>NHS NSS should progress plans to ease workload pressures on Finance staff during the year end accounts preparation period, including automation of some processes.</p>	<p>Improvement actions affected by Covid-19</p> <p>The Covid-19 pandemic and the associated response (remote working, redeployment of staff, sickness absence etc.) delayed both accounts preparation and the audit process. The Finance team and audit team have worked together to a revised sign-off date in August rather than 30 June.</p> <p>We will discuss the 2020/21 accounts preparation process and timescale with the Finance team as part of 202/21 audit planning.</p>
Prior year 2	<p>Trade union facility time disclosure</p> <p>The TU facility time disclosure in the 2018/19 annual report and accounts included an estimate of some facility time, as the required data, including actual facility time, was not obtained and collated in time for publication in the annual report and accounts.</p>	<p>NHS NSS should put arrangements in place to collect the required data at regular intervals and collate this centrally. This will allow time for data to be checked and ensure that NHS NSS is able to publish robust, complete data. Trade union representatives should be informed that this disclosure is a legal requirement and that returns are required to fully comply with guidance.</p>	<p>Improvement actions affected by Covid-19</p> <p>The TU facility time disclosure was not available in time for publication in the 2019/20 annual report and accounts.</p> <p>The amended reporting requirements under the Coronavirus (Scotland) Act 2020 allow health boards to include a cross reference in the 2019/20 annual report and accounts to where the TU facility time disclosure will be published, rather than including the full disclosure in the accounts. NHS NSS has opted to use this streamlined disclosure.</p>
Prior year 3	<p>National Fraud Initiative</p> <p>NHS NSS made good progress in its NFI investigations, but the results of offline work had not been fully recorded on the secure NFI website.</p>	<p>NHS NSS should record its NFI investigations on the secure NFI website to ensure that the results are captured for the national reporting of outcomes.</p>	<p>Complete</p> <p>All NFI investigations have now been recorded on the secure NFI website.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
Prior year 4	<p>Performance report</p> <p>There is scope for NHS NSS to develop the narrative of the performance report in its annual report and accounts to be a more accessible account of overall performance in the year, in a style more consistent with other corporate publications. The content of the report is prescribed in the NHS accounts manual (and NHS NSS discloses the required information) but NHS NSS can choose how to present this content.</p>	<p>NHS NSS should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications.</p>	<p>Complete</p> <p>The 2019/20 performance report is presented in the NHS NSS corporate style. The content is more accessible and includes wider information on NHS NSS activities than in previous years.</p> <p>NHS NSS is considering further developments (e.g. use of infographics) for future years.</p>
Prior year 5	<p>National boards collaboration</p> <p>Progress is slow on collaboration between national boards to transform services and deliver savings.</p>	<p>NHS NSS should work with other national boards to progress the collaborative workstreams and deliver the required change to service provision.</p>	<p>In progress/ on hold due to Covid-19</p> <p>NHS NSS is offering shared services to other boards, which may provide positive examples where collaboration rather than duplication saves the NHS money.</p> <p>Progress is still slow; there is little national appetite to drive forward collaborative transformation, although the Covid-19 pandemic has created more acceptance of new ways of working. It is unclear whether this will translate into more collaboration in future.</p>
Prior year revised action 1	<p>Efficiency savings</p> <p>For each year from 2018/19 to 2022/23, NHS NSS is required to deliver 5% (£16.705 million) savings. NHS NSS has yet to identify £1.3 million of the savings required for 2018/19. There are wider gaps to be addressed in the four years to 2022/23.</p> <p>Risk</p> <p>NHS NSS may not be able to deliver the targeted savings over the next five years.</p>	<p>NHS NSS should ensure that savings plans are developed to close the gap between target and identified savings.</p>	<p>2019/20 savings achieved but subsequent impact of Covid-19</p> <p>NHS NSS achieved (and exceeded) its savings target for 2019/20. As NHS NSS has a key role in the national NHS response to Covid-19 there is a substantial financial impact on NHS NSS's financial projections; this is being kept under review and reported to the Board. (Refer to Part 3 of this report on Financial Sustainability.)</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
<p>Prior year revised action 2</p>	<p>External PSIAS review of internal audit required for compliance</p> <p>NHS NSS's internal auditor has not yet had an external review of compliance with the Public Sector Internal Audit Standards. This review is required every 5 years.</p> <p>Risk</p> <p>There is a risk that internal audit does not comply with the standards.</p>	<p>NHS NSS should arrange an external review of its internal auditor's compliance with the Public Sector Internal Audit Standards and consider including this requirement explicitly in the future procurement of internal audit services</p>	<p>In progress</p> <p>The external review of KPMG's compliance with PSIAS will take place by the end of December 2020.</p> <p>We will review confirmation of this review as part of our 2020/21 audit.</p>
<p>Prior year revised action 3</p>	<p>ICT contract management</p> <p>The overall framework for managing ICT contracts in NHS NSS is not formally documented; considerable reliance is placed upon "corporate knowledge and memory".</p> <p>Risk</p> <p>This ad hoc approach reduces the likelihood that future procurements (and contracts) can fully benefit from the lessons learned from previous contracts.</p>	<p>NHS NSS should document its overall approach to ICT contract procurement and management. The organisation should also consider knowledge transfer and succession planning in this area.</p>	<p>Not reviewed</p> <p>We postponed audit work involving the Digital and Security SBU to allow staff to focus on the response to Covid-19. However, we have noted progress being made in relation to this recommendation and will follow up in more detail during the 2020/21 audit.</p>

Appendix 2

Significant audit risks identified during planning

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

Risks of material misstatement in the financial statements

<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>The focused testing of accruals and prepayments did not identify any signs of management manipulation of the year-end financial position.</p> <p>Detailed testing of journal entries included increased procurement related to Covid-19 (e.g. significant prepayments for orders of personal protective equipment). An adjustment has been made to move prepayment balances from payables to receivables in the Statement of Financial Position (refer Exhibit 3, no.4).</p> <p>The review of accounting estimates did not show any evidence of management bias.</p> <p>We concluded that there was no indication of management override of controls.</p>
<p>2 Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. NHS National Services Scotland receives income from a variety of sources: NHS funding from the Scottish Government is not considered to represent a risk of material misstatement, although we will review the audit trail for funding allocation adjustments (as in previous years). Our testing will</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Analytical procedures on income streams showed no unusual transactions. Explanations for material year on year increases in income were provided by management, with appropriate supporting evidence.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk did not identify any areas of concern. We noted one pharmacy rebate which required correcting entries to be made (refer Exhibit 3 no.5).</p> <p>We carried out audit procedures on funding allocations and adjustments to ensure that adjustments were valid. This work</p>

focus on income from other sources.

did not identify any areas of concern.

<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) and the Code of Audit Practice require consideration of the risk of fraud over expenditure. The extent and nature of expenditure at NHS National Services Scotland means that there is an inherent risk of fraud; we will carry out audit procedures to address this risk.</p>	<p>Analytical procedures over expenditure streams</p> <p>Review of contracts and agreement to actual spend</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Explanations for material year on year increases in expenditure were provided by management, with appropriate supporting evidence.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk did not identify any areas of concern.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of non-current assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the relevant professional valuer.</p> <p>Focused substantive testing of key areas to valuation certificates.</p> <p>Review of accounting policies to ensure they are reasonable and appropriately applied.</p>	<p>The 'review of the work of an expert' for the professional valuer confirmed the expert's reliability and no issues for concern were identified in respect of their professional judgement.</p> <p>Focused substantive testing of non current assets showed that there was audit evidence to support estimates and judgements made.</p> <p>We concluded that could rely on the valuer as a management expert; that the valuation of land and buildings was appropriately included in the financial statements; and that appropriate disclosure was made in Note 1 Accounting Policies, section 30, <i>Key sources of judgement and estimation uncertainty</i> regarding the market uncertainty caveat in the valuer's report. We have included an Emphasis of Matter paragraph in the audit opinion on this disclosure: the opinion is not modified by this matter.</p>
<p>5 Inventories</p> <p>The inventories balance is material in the NHS NSS financial statements and this balance is expected to increase as a result of Scottish Government instructions to raise stock levels ahead of EU withdrawal. There is a risk that the existence, accuracy and valuation of stock are not properly recorded leading to an increased risk of material misstatement in the financial statements.</p>	<p>Attendance at stock count to ensure procedures are followed appropriately.</p> <p>Review of stock valuation and any arrangements for stockpiling in advance of the UK's withdrawal from the EU.</p>	<p>Attendance at a stock count did not identify matters of concern.</p> <p>Stock levels increased materially at year end due to the Covid-19 response. We tested the increased year end procurement (see no.8 below). We identified no errors in accounting for inventories.</p> <p>We note that Internal Audit's planned work on financial controls at the National Distribution Centre did not take place, to allow NDC staff to focus on the response to Covid-19. The work covered</p>

SNBTS stock controls instead, with an assurance rating of “Significant assurance with minor improvement opportunities”.

<p>6 Financial statements preparation</p> <p>The reconciliations process supporting the accounts preparation is to be automated during the year.</p> <p>This change in process creates a risk that the new process does not operate as intended and that we would not be able to rely on the outputs as audit evidence. The timetable proposed for the audit of the financial statements is challenging and we are aware from our planning and risk assessment work that finance staff are continuing to work under pressure. There is a risk that we are unable to meet the agreed timescales for the scheduled June Audit and Risk Committee if any delays occur or audit issues are identified.</p>	<p>Review of automated reconciliation processes to ensure we can rely on the year end reconciliations in our financial statements audit.</p> <p>Agreement of accounts timetable and a checklist of the working papers to be supplied with the unaudited financial statements.</p> <p>We also attended a finance team meeting in early 2020 to discuss the audit process, working papers and audit evidence with the staff responsible for the financial statements’ supporting documentation.</p>	<p>The response to Covid-19 increased the pressure on Finance staff during the accounts preparation and audit period. It delayed the submission of the unaudited annual report and accounts for audit and caused delays in provision of supporting documentation and responses to audit queries. There were some incomplete disclosures and presentation errors in the unaudited annual report and accounts, which were corrected in the audited version.</p> <p>We concluded that we could rely on the automated reconciliation process. We noted a delay in management review of some reconciliations during the year.</p> <p>The Scottish Government extended the administrative deadline for submitting the audited annual report and accounts from 30 June to 30 September. The NHS NSS audited annual report and accounts were signed off within this revised deadline.</p>
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Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>7 Value for money: digital transformation</p> <p>NHS NSS has an ambitious digital transformation strategy. To support NHSNSS’ “Cloud First” vision, this includes building and supporting a private high-occupancy cloud infrastructure. Over time this will host both internal and national services that support patient care (e.g. the replacement CHI/CHS service). As patient care services are migrated from the current managed service arrangements, NHSNSS will need to develop robust 24/7 wrap-around support. This creates a potential capacity risk that is likely to increase over time.</p>	<p>We intended to:</p> <p>Review plans for the operational delivery of cloud-based services including the in-house 24/7 wrap around support; and</p> <p>Review plans for the management of capacity risk.</p> <p>However, as the Digital and Security (DaS) SBU was very busy supporting the NHS NSS (and wider NHS Scotland) response to Covid-19, we have postponed this audit work.</p>	<p>We will revisit this risk as part of our 2020/21 audit planning; if it is still considered an audit risk, we will carry out the postponed audit work from 2019/20.</p>
<p>8 Risks arising from Covid-19 pandemic</p> <p>NHS NSS has a central role in procurement of Personal</p>	<p>We reviewed significant payments before and after the year end to ensure that transactions were</p>	<p>Expenditure was appropriately authorised; goods were recorded as received; and expenditure was</p>

Protective Equipment (PPE) for NHS Scotland. This was expanded to include PPE supplies for care homes, as part of the Scottish Government's response to Covid-19.

As there was very high worldwide demand for PPE, and the situation was/is very fast-moving, supplies were procured from new suppliers in other countries (relying on due diligence carried out by another public sector body). Some payments were made up-front to secure the purchase, which is not usual practice.

Most Covid-19 related expenditure is in 2020/21. This includes the cost of setting up the Louisa Jordan field hospital. Estimates of the total Covid-19 costs are currently more than NHS NSS's entire baseline funding. It is currently unclear whether NHS NSS will receive funding to cover the full cost of Covid-19 related expenditure. We will review this in our 2020/21 audit.

appropriately authorised, that the goods were received, and that expenditure was accounted for in the correct financial year.

recorded in the correct financial year.

The Scottish Government has authorised NHS NSS to pre-pay where necessary to secure PPE orders.

We tested one payment in cut-off testing where the supplier invoiced NHS NSS for 100% in advance, rather than the agreed 50%; on identifying this, the supplier returned 50% to NHS NSS.

We concluded that the identified risk of material misstatement in the 2019/20 financial statements has been addressed through audit testing.

We have reported on financial sustainability, including the current estimated financial impact of Covid-19, in Part 3 of this report.

Appendix 3

Summary of national performance reports 2019/20



**2019/20
Reports**

		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

NHS relevant reports

[NHS workforce planning – part 2](#) – August 2019

[NHS in Scotland 2019](#) – October 2019

NHS National Services Scotland

2019/20 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk