

B/17/62

NSS Formal Board Meeting – Thursday 29 June 2017

Audit & Risk Committee Annual Report 2016/17

Purpose

The NSS Audit and Risk Committee Annual Report provides a summary of matters considered by the Committee and to give assurance to the NSS Board that the Committee has fulfilled its remit.

Recommendation

The Board is asked to approve the report that was tabled and approved by the meeting of the Audit & Risk Committee on 22 June 2017.

Timing

There are no timing issues in relation to this report.

Background

This is an annual report to the Board to provide assurance that it is fulfilling its remit under the NSS Standing Orders.

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Audit & Risk Committee Annual Report to Board Members 2016/17

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2. Context

In accordance with the Terms of Reference and Standing Orders, the Audit and Risk Committee presents its Annual Report to the Board.

3. Audit and Risk Committee Meetings

The Audit and Risk Committee membership and representation as at 31 March 2017 is as follows.

Members:

Mr Mark McDavid (Chair)	Non Executive Director
Ms Julie Burgess	Non Executive Director
Mr Robert Calderwood	Non Executive Director (resigned effective 31 January 2017)
Ms Kate Dunlop	Non Executive Director
Mr Douglas Yates	Non Executive Director

In attendance:

Mr Colin Sinclair	Chief Executive
Mr John Fox-Davies	Director of Strategy & Governance
Prof Elizabeth Ireland	NSS Chair
Ms Carolyn Low	Director of Finance and Business Services
Ms Eilidh Prentice	Associate Director Corporate Affairs and Compliance

Auditor representation:

KPMG	Internal Audit
Scott-Moncrieff	Service Audit
Audit Scotland	External Audit

The Committee met in May, June, September, December 2016, and March 2017. Members reviewed the annual audit plans, reports from auditors and management's progress in completing audit actions raised. Progress with fraud cases and counter fraud initiatives were also reviewed.

In camera sessions were held during the year by the Committee with KPMG, Scott-Moncrieff and Audit Scotland.

4. Minutes of and Actions from Meetings

Minutes of Committee meetings have been approved by the Committee and presented to the NSS Board. The Board also receives a highlights report on the key issues discussed by the Committee. Any relevant issues or matters arising from the other NSS Committees are brought to the attention of the Audit and Risk Committee to ensure that relevant points are noted and actions taken where appropriate.

The Committee maintains an action register to record and manage actions agreed from each meeting and reviews progress at subsequent meetings.

5. Appointment of Auditors

The Auditors of NSS during the year were as follows:

Audit Service	Auditor	Duration
Internal Audit	KPMG	2015/16 – 2017/18
Service Audit: Payroll Services	Scott Moncrieff	2015/16 – 2017/18
Service Audit: Practitioner Services	Scott-Moncrieff	2015/16 – 2017/18
Service Audit: National IT Contract	Scott-Moncrieff	2015/16 – 2017/18
External Audit	Audit Scotland	2016/17 – 2020/21

6. Reports Reviewed

6.1 Internal Audit

The Committee approved the Internal Audit Plan for 2016/17 on 8 December 2016. During the year, the Committee was provided with updates on the progress made against the Internal Audit Plan, the key findings identified and progress made by management with implementation of audit recommendations to address them.

A summary of the Internal Audit reports reviewed by the Committee during the year is provided in Table 1 below. In total, 11 audits were completed in the year and 43 findings were raised. Of the 43 findings requiring management action, 0 were categorised as 'high', 19 as 'medium' and 24 as 'low' in terms of risk.

The Internal Audit Plan was reviewed as being appropriate by the NSS Board to ensure it was still meeting NSS's requirements and minor changes had been made during the year.

Actions have been agreed to address all recommendations during the 2016/17 audit cycle. As at 31 March 2017, 89% of all actions due for completion have been fully addressed on time. Due to the timing of audit reports, 41 actions from the 2016/17 audit will be completed during 2017/18.

Progress with completion of all actions due in 2016/17 was monitored and reviewed jointly by the Director of Strategy and Governance and Associate Director of Corporate Affairs and Compliance. This was reported on to the Committee on a quarterly basis.

During the year the format for reporting on actions arising from internal audits was reviewed and changed. The changes were well received.

Review	Report classification	Number of findings				Total
		<i>Critical</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>	
Customer Relationship Management	Significant assurance with minor improvement			2	3	5
Gifts and Hospitality	Significant assurance with minor improvement			2	-	2
Strategic Planning	Significant Assurance				3	3
Business Continuity Planning	Significant assurance with minor improvement			4		4
Governance and Board Effectiveness	Significant Assurance			2	3	5
Adverse Events Reporting	Significant assurance with minor improvement			2	5	7
Charging Models	Significant assurance with minor improvement			2	1	3
Accounts Receivable and Treasury Financial Controls	Significant assurance with minor improvement			4	4	8
Efficiency and effectiveness	Significant Assurance				1	1
PHI Government Service Level Agreement	Significant Assurance			1	1	2
Customer engagement	Significant Assurance				3	3
TOTAL	11			19	24	43

Table 2 shows the report classifications.

Table 2

Report classifications	Number of Reports with this classification
Partial assurance with Improvements required	0
Significant assurance with minor improvement	6
Significant Assurance	5

Table 3 A and B provides an overview of incomplete actions.

Table 3 A

Actions due on or by 31/03/17

Risk Level	Number of incomplete internal audit actions	Implementation date(s)	Report Title
Low	2	31/03/2017	PHI SLA
		31/03/2017	PHI SLA
Medium	2	31/03/2017	Accounts Receivable

Table 3 B

Actions Due Post 31/03/17






Risk Level	To be completed during 2017/18 but audit report presented during 2016/17	Implementation Date	Report Title
		12/05/2017	Efficiency and Effectiveness
		31/03/2018	Customer Engagement
		31/03/2018	Customer Engagement
		31/07/2017	Customer Engagement
		30/06/2017	Customer Engagement
		31/03/2018	Customer Engagement
		31/03/2017	PHI SLA (only reported to the March 2017 A&RC)
		31/03/2017	PHI SLA (only reported to the March 2017 A&RC)
		30/04/2017	PHI SLA
		01/05/2017	PHI SLA
		31/05/2017	PHI SLA
		31/05/2017	Charging Models

Low	27	31/05/2017	Charging Models
		30/06/2017	Accounts Receivable
		30/06/2017	Accounts Receivable
		31/08/2017	Accounts Receivable
		30/06/2017	Accounts Receivable
		30/06/2017	Adverse Events Reporting
		31/12/2017	Adverse Events Reporting
		30/09/2017	Adverse Events Reporting
		31/12/2017	Adverse Events Reporting
		31/03/2018	Adverse Events Reporting
		31/03/2018	Board Effectiveness and Governance
		31/03/2018	Board Effectiveness and Governance
		31/03/2018	Board Effectiveness and Governance
		31/08/2017	Strategic Planning
		31/08/2017	Strategic Planning
Medium	14	30/04/2017	PHI SLA
		30/09/2017	Charging Models
		30/06/2017	Accounts Receivable
		31/03/2017	Accounts Receivable (only reported to the March 2017 A&RC)
		30/06/2017	Accounts Receivable
		30/09/2017	Accounts Receivable
		30/06/2017	Adverse Events Reporting
		30/06/2017	Board Effectiveness and Governance
		30/06/2017	Board Effectiveness and Governance
		31/03/2018	Business Continuity Planning
		31/03/2018	Business Continuity Planning
		31/04/2017	Business Continuity Planning
31/03/2018	Business Continuity Planning		

The Committee maintains an action register to record and manage actions agreed from each meeting and reviews progress at subsequent meetings.

Table 4 shows the total number of findings raised during 2016/17.

Table 4

Finding rating	Trend between current and prior year	Number of findings			
		2016/17	2015/16	2014/15	2013/14
Critical		-	-	-	-
High		-	3	1	4
Medium		19	22	25	27
Low		24	22	31	14
Total		43	47	57	45

Internal Audit Annual Report 2016/17

The Internal Audit Annual Report for 2016/17 from KPMG summarises the work carried out in the year. This was approved by the Committee in May 2017. In this report, the Head of Internal Audit reports in the audit opinion that:

Our overall opinion for the period 1 April 2016 to 31 March 2017 is that:

Significant with minor improvements assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Overall our review found that the Assurance framework in place is founded on a systematic risk management process and does provide appropriate assurance to the Board.

The Assurance Framework does reflect the organisation's key objectives and risks and is reviewed on an annual basis by the Audit and Risk Committee.

6.2 Service Audits

The Service Audit reports for 2016/17 were reviewed and approved by the Committee on 17 May 2017. The service areas audited were:

- National IT Services Contract
- Payroll Services
- Practitioner Services

The Service Auditors have provided unqualified opinions for all of the above Service Audits and the reports were circulated to customer NHS Boards by 31 May 2017.

In summary:

- For the National IT Services Contract, a total of 120 control areas were tested and 16 exceptions were reported which were considered to be moderate or limited risk. In the previous year, 116 control areas were tested and 7 exceptions were reported. No critical or significant control exceptions were noted (*for a fifth consecutive year*). All actions required to address the exceptions in the prior year have been completed.
- Practitioner Services has continued to maintain a low level of exceptions. Out of 132 control areas tested, 8 exceptions were reported. In the prior year, 135 controls were tested and 13 exceptions reported. The exceptions noted this year were considered to be medium or low risk. No critical or high risk exceptions were noted.
- For the Payroll Services audit out of 15 control areas tested only 3 exceptions have been found and these are deemed to be low risk. In the prior year, 15 controls were tested and 1 exception was reported.

The results of the testing undertaken has provided positive assurance over the controls in place and clearly identified areas of control weakness to be addressed by management. Actions have already been taken to address a number of the exceptions noted.

Service Audits will continue in 2017/18 for the service areas noted above.

7. External Audit – Audit Scotland

The Committee receives all reports from the External Auditors (Audit Scotland). These include an annual assessment of the adequacy of the internal audit, the external audit annual audit plan, internal controls report and the annual audit report. The annual audit report includes a report to those charged with governance on matters arising from the audit of the annual financial statements, as well as comment on financial sustainability, governance and best value. The External Auditors also review the work of the service auditor of Practitioner Services and make a report on their review to the external auditors of relevant health boards. The Committee also receives a copy of this report for information. Audit Scotland have once again been appointed as our external auditors for the period 2016/17 to 2021/22.

Where appropriate, issues raised by the External Auditor as part of the Annual Accounts process are included in the Governance Statement in the Annual Accounts. For the year to 31 March 2017, 2 issues were noted.

The draft Annual Accounts – ‘Part A - Reports and certificates’ and ‘Part B - Accounting Policies’ were reviewed by the Committee at its meeting on 17/05/2017.

The Director of Finance attended the clearance meeting for the Annual Accounts with the External Auditors on 07/06/2017. The final Annual Report and Accounts were presented to the Committee on 22/06/2017 for approval and presented to the Board for adoption on 29/06/2017. Once signed, the Annual Report and Accounts will be submitted to the Scottish Government Health & Social Care Directorate (SGHSC) by 30 June 2017 and will then be laid before Parliament.

8. Process Management

The Committee reviewed its effectiveness during the year. On the whole, the questionnaires completed by members of the Committee were positive and in particular there were good comments around the rigour of debate at meetings of the Committee and the interaction with Executive Directors to obtain an understanding of areas of risk. The review suggested that some of the papers presented could be more concise with greater clarity required over some of the decisions required of the Committee.

In response to feedback received changes were made to the format of some of the reports received by the Committee. A focus of continuous improvement will ensure that other opportunities to improve the efficiency and effectiveness of the Committee are identified and acted upon.

9. Risk Management

All NHS Bodies are subject to the requirements of the Scottish Public Finance Manual (SPFM) and must operate a risk management strategy in accordance with the relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

Risk Assessment

NHS NSS governance and management structures support risk management by embedding risk identification and assessment into their strategic reviews and day to day activities as follows:

- The risk management approach sets out the importance of risk management to the delivery of our objectives, the responsibilities of staff across NHS NSS, the supporting organisational arrangements for the identification, assessment and reporting of risks and the steps to be taken to develop and implement mitigating actions.
- SBUs identify and assess risks through their planning and performance processes and through the internal controls assurance checklists. Monthly risk reviews are undertaken by SBUs.
- Management Groups review the risks by risk category for their areas: Business, Staff, Clinical and Reputational and challenged the actions being taken to address them. Information Governance risks across all of the categories were also reviewed by the Information Governance Group.
- The Executive Management Team reviews the risk profile for the organisation, across all categories of risk and challenged key organisational risks monthly. They also engage with management groups and SBUs on key risks.
- The NHS NSS Committees; Performance and Finance, Staff Governance, Clinical Governance, Information Governance and Audit and Risk meet at least three times each year and review and challenge Business, Staff, Clinical, Information and Reputational risks respectively across NHS NSS. This provides a comprehensive review of risks by risk category across the organisation.
- The Audit and Risk Committee receive quarterly reports on risk management across NHS NSS, the improvements being made to our processes and procedures and key risks for the organisation. This has provided the Committee with the assurance that risk management has been operating effectively and that there has been integration between organisational risks and audit activity.
- The Board also receives risk update reports every six months. The reports include details of risk management improvements, the risk profile for the organisation and the key risks being addressed. This gives the Board the opportunity to review and challenge risk management processes and the key risks we face.
- Risks associated with information that we hold and are responsible for are subject to regular review and independent audit as part of our overall governance and risk management arrangements. The NSS Information Governance Committee has met three times and provided a focus for the five Information Governance disciplines: Caldicott & Confidentiality, Data Protection, Information Security, Records Management and Freedom of Information. The Committee reports directly to the NHS NSS Board.

Risk management developments

The NHS NSS approach towards risk management is one of continuous improvement in order to develop an effective and consistent risk management culture across the organisation. Throughout 2016-17 risk management was improved through the following assessments and developments:

- The Integrated Risk Management Approach was reviewed to ensure that it continues to be effective and meets the needs of our staff, management groups and governance structures.
- NHS NSS use the checklists to assess the internal controls we have in place around our key day to day activities. This allows us to identify where external assurance is provided around the services we provide.
- The Executive Management Team (EMT) has scrutinised the key risks for the organisation using online risk information which is available through our Decision Support Tool which interfaces with our risk register twice a month. The NHS NSS Board, EMT and sub committees monitor changes in our risk profile and consider the risks we face in terms of their likelihood and impact as well as their overall risk rating. The NHS NSS Board challenged the organisations strategic risks at formal meetings through the Strategic Scorecard discussions.
- NHS NSS Risk Champions continued to meet quarterly to share risk management best practice and support continuous improvement to our risk management process and procedures. This has improved the implementation of our risk management approach across the organisation. All staff are required to complete the Risk and Resilience e-Learning as mandatory training.
- The NHS NSS Risk Appetite was considered at the Board Strategic Development Session in October 2016 and the risk session at their Board Development Meeting in March 2017 and approved at the formal Board meeting in April 2017. NHS NSS has a flexible approach to its risk appetite in pursuit of its four principal objectives: Customers at the Heart of Everything We Do, Increase our Service impact, Improving the Way We Do Things and Be a Great Place to Work. Where risks to new and on-going activities are identified, NHS NSS will always attempt to mitigate the likelihood or impact of the risk to a level judged to be acceptable in the prevailing conditions. This is in line with the NHS NSS IRMA.
- In addition to regular reviews of existing risks, the NHS NSS Board and the EMT also devoted time to identifying new potential strategic risks at their respective development and offsite meetings in March 2017.
- NHS NSS has sustainability impact assessed all corporate risks against threats from climate change as part of the NHS NSS corporate commitment to address the social, economic and environmental impacts of its products, services, projects and/or activities.
- The Clinical Governance Committee reviews NHS NSS risks with “clinical” as their primary and secondary category. In addition in March 2017, a clinical flag was introduced so that risks which do not have clinical as their primary or secondary category, but that do have some clinical impact could be more readily identified and considered.

During the next financial year ending 31 March 2018 we will continue to seek opportunities to further enhance the Board's system of internal control.

10. Fraud Prevention

The Committee received quarterly fraud update reports during the year from the NSS Fraud Liaison Officer. These reports provided the Committee with updates on NSS fraud cases, counter fraud training delivered to staff, initiatives undertaken to identify and address fraud, and the work carried out by Practitioner & Counter Fraud Services in relation to detecting, deterring, disabling and dealing with fraud in the NHS. This provided the Committee with the assurance that the risk of fraud was being managed and addressed across NSS.

11. Conclusion

Audit

The Committee is satisfied that the Internal Audit and Service Audits carried out for 2016/17 have provided strong assessments of the effectiveness of the internal controls in place around our systems and processes in the areas tested.

The control environment has continued to improve around the services we deliver to customer NHS Boards. The number of audit findings was low for another year and NSS management and staff have been actively addressing the issues raised. There has been a clear focus on resolving issues to ensure continuous improvement in service delivery and effective customer engagement.

The Committee received progress reports from Internal, External and Service Auditors during the year which reported on the actions taken to address audit issues raised. In relation to the high risk issues, we are satisfied that effective and timely action has been taken by management.

Risk management

This risk management and controls assurance frameworks in place support the positive assurance provided in the Governance Statement in the annual accounts. The frameworks have also informed our Internal Audit Plans by allowing us to identify areas where controls could be improved. The NSS Risk process was also benchmarked against other public sector organisations and NSS were shown to be above average for six of the seven strands measured.

Risk management processes and procedures have been reviewed throughout the year by NSS management and improvements have been made where necessary. The improvements made have continued to enhance the links between service delivery, risk management and controls assurance.

On the basis of the programme of audit and assurance activity approved by the Committee for 2016/17, the matters reported by our auditors and risk management activity, we would therefore agree with the points made by the Chief Executive in relation to the effectiveness of internal controls in the Governance Statement as set out in the Annual Report and Accounts.

The Audit and Risk Committee members conclude that they have given due consideration to the effectiveness of the system of internal control in NSS, have carried out their role and discharged their responsibilities on behalf of the Board in respect of the Committee's remit as described in the Standing Orders.

Mr Mark McDavid
Chair of the Audit and Risk Committee
15.06.17