Meeting: NSS Board of 29/06/2018

Paper Number: B/18/66a

Title of Paper: ARC Annual Report 2017-18

Paper Type:

This is a routine paper highlighting the work of the Committee over the year.

Decisions Required

The Board is asked to approve the report that was tabled and approved by the meeting of the Audit and Risk Committee on 21 June 2018.

Analysis:

The Annual Report provides assurance to the Board that internal controls, reputational risks and the audit framework are being adequately monitored in line with NSS’s Standing Orders.

Name(s) of Author(s)  Mark McDavid
Role(s) of Author(s)  Chair of the Audit and Risk Committee
Audit & Risk Committee
Annual Report to Board Members
2017/18
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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
- **Ms Jane Davidson** Non Executive Director (effective from 01 July 2017)
- **Ms Kate Dunlop** Non Executive Director
- **Ms Alison Rooney** Non Executive Director (effective from 01 July 2017)

In attendance:

- **Mr Martin Bell** Interim Director of Strategy & Governance (From 1 December 2017)
- **Mr Colin Sinclair** Chief Executive
- **Mr John Fox-Davies** Director of Strategy & Governance (to 30 November 2017)
- **Prof Elizabeth Ireland** NSS Chair
- **Ms Carolyn Low** Director of Finance and Business Services
- **Mrs Eilidh McLaughlin** 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 2017, and March 2018. 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:

<table>
<thead>
<tr>
<th>Audit Service</th>
<th>Auditor</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit</td>
<td>KPMG</td>
<td>2015/16 – 2017/18</td>
</tr>
<tr>
<td>Service Audit: Payroll Services</td>
<td>Scott Moncrieff</td>
<td>2015/16 – 2017/18</td>
</tr>
<tr>
<td>Service Audit: Practitioner Services</td>
<td>Scott-Moncrieff</td>
<td>2015/16 – 2017/18</td>
</tr>
<tr>
<td>Service Audit: National IT Contract</td>
<td>Scott-Moncrieff</td>
<td>2015/16 – 2017/18</td>
</tr>
<tr>
<td>External Audit</td>
<td>Audit Scotland</td>
<td>2016/17 – 2020/21</td>
</tr>
</tbody>
</table>

6. Reports Reviewed

6.1 Internal Audit

The Committee approved the Internal Audit Plan for 2017/18 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, 9 audits were completed in the year and 41 findings were raised. Of the 41 findings requiring management action, 3 were categorised as ‘high’, 17 as ‘medium’ and 21 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 2017/18 audit cycle. As at 31 March 2018, 95% of all actions due for completion have been fully addressed on time. Due to the timing of audit reports, four actions from the 2017/18 audit will be completed during 2018/19.

Progress with completion of all actions due in 2017/18 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.
<table>
<thead>
<tr>
<th>Review</th>
<th>Report classification</th>
<th>Number of findings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Maturity Assessment (from 2016-17)</td>
<td>Significant assurance with minor improvement opportunities</td>
<td>1  5  6</td>
<td></td>
</tr>
<tr>
<td>Health and Safety Controls</td>
<td>Partial assurance with improvements required</td>
<td>1  3  1  5</td>
<td></td>
</tr>
<tr>
<td>IT Resilience and Disaster Recovery</td>
<td>Partial assurance with improvements required</td>
<td>2  -  1  3</td>
<td></td>
</tr>
<tr>
<td>Health Inequalities</td>
<td>Significant assurance with minor improvement</td>
<td>2  3  5</td>
<td></td>
</tr>
<tr>
<td>Statutory &amp; Mandatory Training</td>
<td>Significant assurance with minor improvement</td>
<td>1  4  5</td>
<td></td>
</tr>
<tr>
<td>Financial Sustainability – Revenue Generation</td>
<td>Significant assurance with minor improvement</td>
<td>3  1  4</td>
<td></td>
</tr>
<tr>
<td>Infected Blood Scheme Payments</td>
<td>Significant assurance with minor improvement</td>
<td>2  3  5</td>
<td></td>
</tr>
<tr>
<td>Financial Controls</td>
<td>Significant assurance with minor improvement</td>
<td>3  1  4</td>
<td></td>
</tr>
<tr>
<td>Information Governance and Data Security</td>
<td>Significant assurance with minor improvement</td>
<td>2  2  4</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3  17  21  41</td>
<td></td>
</tr>
</tbody>
</table>
Table 2 shows the report classifications.

Table 2

<table>
<thead>
<tr>
<th>Report classifications</th>
<th>Number of Reports with this classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial assurance with Improvements required</td>
<td>2</td>
</tr>
<tr>
<td>Significant assurance with minor improvement</td>
<td>7</td>
</tr>
<tr>
<td>Significant Assurance</td>
<td>-</td>
</tr>
</tbody>
</table>

*All actions due by 31st March 2018 were reported as complete.*

Table 3

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>To be completed during 18/19 but audit report presented in 17/18</th>
<th>Implementation date(s)</th>
<th>Report Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>1</td>
<td>25/05/2018</td>
<td>Health Inequalities</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
<td>30/09/2018</td>
<td>Health Inequalities</td>
</tr>
</tbody>
</table>

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 2017/18.

Table 4

<table>
<thead>
<tr>
<th>Finding rating</th>
<th>Trend between current and prior year</th>
<th>Number of findings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017/18</td>
<td>2016/17</td>
</tr>
<tr>
<td>Critical</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Medium</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Low</td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>43</td>
</tr>
</tbody>
</table>
Internal Audit Annual Report 2017/18

The Internal Audit Annual Report for 2017/18 from KPMG summarises the work carried out in the year. This was approved by the Committee in May 2018. In this report, the Head of Internal Audit reports in the audit opinion that:

Our overall opinion for the period 1 April 2017 to 31 March 2018 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.

Special Investigation

Governance weaknesses came to light in March 2018 relating to eHealth funds held by NSS on behalf of NHS Boards and designed to manage and deliver major eHealth multi-year programmes. The Board Chair and Chief Executive put immediate measures into place to improve governance and weak practices identified. This included commissioning the Board’s internal auditors, KPMG, to conduct a formal review. The subsequent KPMG report was shared with Scottish Government and informed SG’s broader eHealth investigation via Grant Thornton LLP.

NHS NSS has committed to implement in full all recommendations made by both KPMG and Grant Thornton LLP. An action plan is in place and progress reported to Scottish Government.

6.2 Service Audits

The Service Audit reports for 2017/18 were reviewed and approved by the Committee on 23 May 2018. 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 2018.

In summary:

- For the National IT Services Contract, a total of 108 control areas were tested and 14 exceptions were reported which were considered to be moderate or limited risk. In the previous year, 120 control areas were tested and 16 exceptions were reported. No critical or significant control exceptions were noted. 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 130 control areas tested, 9 exceptions were reported. In the prior year, 132 controls were
tested and 8 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 3 exceptions have been found and these are deemed to be low risk. In the prior year, 15 controls were tested and 3 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 2018/19 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 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 2018, no 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 23/05/2018.

The Director of Finance attended the clearance meeting for the Annual Accounts with the External Auditors on 05/06/2018. The final Annual Report and Accounts were presented to the Committee on 21/06/2018 for approval and presented to the Board for adoption on 29/06/2018. Once signed, the Annual Report and Accounts will be submitted to the Scottish Government Health & Social Care Directorate (SGHSC) by 30 June 2018 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, and that management could be more proactive around identifying and reporting on emerging risks.
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 2017-18 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 and as new risks emerge the Board Members have the opportunity to discuss these risks and decide whether they should be flagged as strategic for their ongoing consideration. A paper detailing the suggested revisions to the list of strategic risks was presented to the Board members at their June 2017 meeting. At that meeting it was also suggested that more time be allocated at the Board Sub-Committee meetings to discuss strategic risks. As our strategic risks can be Red, Amber or Green this allows each Committee the opportunity to focus on all strategic risks for their area of responsibility and not just the Red and new Amber risks.

- 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.

- In November 2015 the NSS Board Members, from a best practice governance perspective, approved the formal definition of the risk appetite for NSS, in the form of a Risk Appetite Statement. The NHS NSS Risk Appetite is reviewed annually and following considered at the Board Strategic Development Session in October 2017 and review of the wording by the Audit and Risk Committee in December 2017, the Board Members approved the NSS Risk Appetite Statement at the formal Board meeting in February 2018 with minimal amendments to strengthen the Reputational risk appetite wording. 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 EMT also considered areas of potential risks at its development meeting in March 2018.

• The Clinical Governance Committee reviews all NHS NSS primary and secondary category clinical risks and those risks with a clinical dimension. All new and existing corporate risks have been assessed for a clinical dimension, and work is progressing to complete the exercise to assess and appropriately flag all project and programme risks.

During the next financial year ending 31 March 2019 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 2017/18 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 2017/18, 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  
21.06.2018