Audit & Risk Committee Annual Report 2018/18

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 discussed and approved by the meeting of the Audit & Risk Committee on 14 June 2019.

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. You will find the conclusion, which summarises the Committee’s assurances, in Section 11 (which starts on page 9 of 10).

Mark McDavid
NSS Audit & Risk Committee Chair
Mark.mcdavid@nhs.net
Audit & Risk Committee
Annual Report to Board Members
2018/19
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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 2019 is as follows.

Members:

Mr Mark McDavid (Chair) Non Executive Director
Ms Julie Burgess Non Executive Director (until 31 July 2018)
Ms Jane Davidson Non Executive Director
Mr John Deffenbaugh Non Executive Director (from 1 August 2018)
Ms Kate Dunlop Non Executive Director
Ms Alison Rooney Non Executive Director

In attendance:

Mr Colin Sinclair Chief Executive
Professor Elizabeth Ireland NSS Chair
Mrs Carolyn Low Director of Finance and Business Services

Auditor representation:

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

The Committee met in May, June, September, December 2018, and March 2019. 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 – 2018/19</td>
</tr>
<tr>
<td>Service Audit: Payroll Services</td>
<td>Scott Moncrieff</td>
<td>2015/16 – 2018/19</td>
</tr>
<tr>
<td>Service Audit: Practitioner Services</td>
<td>Scott-Moncrieff</td>
<td>2015/16 – 2018/19</td>
</tr>
<tr>
<td>External Audit</td>
<td>Audit Scotland</td>
<td>2016/17 – 2020/21</td>
</tr>
</tbody>
</table>

During 2018/19, a procurement exercise for the provision of both internal and service audit was undertaken in collaboration with the Scottish Ambulance Service and NHS Education for Scotland. The providers from 1 April 2019 will be KPMG for both the Internal and Service Audit services. As per the existing contract, there will be no change to the External Audit provider (as detailed above).

6. Reports Reviewed

6.1 Internal Audit

The Committee approved the Internal Audit Plan for 2018/19 on 5 December 2018. 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 overleaf. In total, seven audits were completed in the year and 41 findings were raised. Of the 41 findings requiring management action, 4 were categorised as ‘high’, 23 as ‘medium’ and 14 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 2018/19 audit cycle. As at 31 March 2019, 72% of all actions due for completion have been fully addressed on time. 15 actions from the 2018/19 audit will be completed during 2019/20.

Progress with completion of all actions due in 2018/19 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 1 – Overview of Audit Reports in 2018/19

<table>
<thead>
<tr>
<th>Review</th>
<th>Report classification</th>
<th>Number of findings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Critical</td>
<td>High</td>
</tr>
<tr>
<td>Financial Controls</td>
<td>Significant Assurance with Improvements</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>New Public Health Body</td>
<td>Significant Assurance with minor improvements</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>PgMS Review</td>
<td>Significant Assurance with minor improvements</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Workforce Planning</td>
<td>Partial Assurance with improvements required</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Information Security Management System</td>
<td>Partial Assurance</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>IT People and Talent Management</td>
<td>Partial Assurance</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Rebates Assurance</td>
<td>Significant Assurance with Minor Improvements</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>4</td>
<td>23</td>
</tr>
</tbody>
</table>

Table 2 – Report Classifications

<table>
<thead>
<tr>
<th>Report classifications</th>
<th>Number of Reports with this classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Assurance with Minor Improvements</td>
<td>3</td>
</tr>
<tr>
<td>Significant Assurance with Improvements</td>
<td>1</td>
</tr>
<tr>
<td>Partial Assurance</td>
<td>2</td>
</tr>
<tr>
<td>Partial Assurance with Improvements Required</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 3 – Internal Audit Actions

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>To be completed during 19/20 but audit report presented in 18/19</th>
<th>Implementation date(s)</th>
<th>Report Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
<td>30/06/2019 31/08/2019 31/10/2019 30/12/2019</td>
<td>IT People Management Workforce Planning PgMS Review IT People Management</td>
</tr>
<tr>
<td>Medium</td>
<td></td>
<td>31/05/2019 30/06/2019 31/07/2019 31/08/2019 30/09/2019 31/10/2019 31/10/2019</td>
<td>IT People Management IT People Management x 2 PgMS Review Workforce Planning Financial Controls PgMS Review Workforce Planning x 2</td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td>30/09/2019 31/10/2019</td>
<td>Financial Controls PgMS Review</td>
</tr>
</tbody>
</table>

N.B.: Following discussion at the 23 May 2019 meeting, it is expected that deadlines associated with the IT People Management Audit will, by necessity, require to be extended. Any formal requests for these extensions will be considered in due course.
Table 4 – Trends in Findings Raised

<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>2018/19</td>
<td>2017/18</td>
</tr>
<tr>
<td>Critical</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Medium</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Low</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>41</td>
</tr>
</tbody>
</table>

Internal Audit Annual Report 2018/19

The Internal Audit Annual Report for 2018/19 from KPMG summarises the work carried out in the year. This was approved by the Committee in June 2019. In this report, the Head of Internal Audit reports that the overall opinion for the period 1 April 2018 to 31 March 2019 is:

- 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 their 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 2018/19 were reviewed and approved by the Committee on 23 May 2019. 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 2019.

In summary:

- For the National IT Services Contract, a total of 111 control areas were tested and 12 exceptions were reported which were considered to be moderate or limited risk. In the previous year, 108 control areas were tested and 14 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 129 control areas tested, nine exceptions were reported. In the prior year, 130 controls were tested and nine 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 four exceptions have been found and these are deemed to be low risk. In the prior year, 15 controls were tested and three exceptions were 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 2019/20 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 2019, no issues were noted.

Early drafts of the Annual Accounts – ‘Part A - Reports and certificates’ and ‘Part B - Accounting Policies’ were reviewed by the Committee at its meeting on 23 May 2019.

The Director of Finance attended the clearance meeting for the Annual Accounts with the External Auditors on 5 June 2019. The final Annual Report and Accounts were presented to the Committee on 14 June 2019 for approval and presented to the Board for adoption on 28 June 2019. Once signed, the Annual Report and Accounts will be submitted to the Scottish Government Health & Social Care Directorate (SGHSC) by 30 June 201 and will then be laid before Parliament.

8. Process Management

The Committee reviewed its effectiveness during the year. This was done through completing the draft Self Assessment Checklist from the revised Audit and Assurance Committee Handbook, published by the Scottish Government Internal Audit Directorate (SGIAD). Overall, the Committee was well positioned, with only a few minor areas for improvement. Suggestions were made to address these which would be taken forward.

9. Risk

All NHS Bodies are subject to the requirements of the 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

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, our risk appetite statement, the responsibilities of staff across
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.

- SBU's identify and assess risks through their planning and performance processes, reviews of significant changes in NSS service or the environment in which it operates in, following a resilience incident, adverse event or near miss, data protection impact assessments, information security risk assessments, testing controls in place around NSS day to day activities, horizon scanning future events, stakeholder engagement, programme and project risk assessments, and through the internal controls assurance checklists. Monthly risk reviews are undertaken by SBU's.

- The Executive Management Team reviews the risk profile for the organisation, across all categories of risk and challenges key organisational risks and issues monthly. They also consider corporate and strategic risks at their Development Sessions throughout the year.

- Risks are assessed for the likelihood of an event occurring and the impact of the event. They are categorised under four headings: Business, Staff Clinical and Reputational. Management Groups review these risks by category for their areas of responsibility and challenge the actions being taken to address them. Information Governance risks across all of the categories were also reviewed by the Information Governance Group.

- The NSS Committees: Finance Procurement and Performance, Staff Governance, Clinical Governance, Information Governance, and Audit and Risk meet at least three times during the year and reviewed and challenged Business, Staff, Clinical, Information and Reputational risks respectively across NSS. This provides a comprehensive review of risks by risk category across the organisation. The Committees also review respective strategic risks at least three times each year.

- The Audit and Risk Committee receives quarterly reports on risk management across NSS, detailing the improvements being made to our processes and procedures and key risks for the organisation. This provides the Committee with the assurance that risk management is operating effectively and that there is integration between organisational risks and audit activity. The Committee also reviews the NSS risk appetite statement on an annual basis.

- 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 provides a focus for the five Information Governance disciplines: Caldicott & Confidentiality, Data Protection, Information and Cyber Security, Records Management and Freedom of Information. The Committee reports directly to the NSS Board.

- The Board 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. The Board reviews and approves NSS's appetite to risk annually. 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, 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 NSS Integrated Risk Management Approach (IRMA).

**Risk management**

The 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 2018-19 risk management was improved through assessments and a development including the annual review of the IRMA to ensure it continues to be effective and meets the needs of our staff, management groups and governance structure.

- The IRMA was reviewed and is aligned to the ISO310009 (2018) international standard on Risk Management. NSS use checklists to assess the internal controls we have in place around our key day to day activities allowing us to identify where external assurance is provided, for the services we provide.
- NSS uses 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.
- NSS Risk Champions 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.

NSS has sustainability impact assessed all corporate risks against threats from climate change as part of the NSS corporate commitment to address the social, economic and environmental impacts of its products, services, projects and/or activities.

10. **Fraud Prevention**

The Committee received quarterly fraud update reports during the year. 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 2018/19 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 2018/19, 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  
June 2019