

13 December 2022

Richard Leonard MSP  
Convener  
Public Audit Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Convener

### **NHS National Services Scotland**

The 2021/22 audit of NHS National Services Scotland (NHS NSS) has concluded and the auditor's opinions on the annual report and accounts are unmodified.

I am writing to advise the Public Audit Committee that I have considered the findings contained within the 2021/22 annual audit report and decided not to produce a further Section 22 report on NHS NSS.

As you know my previous Section 22 report highlighted the key role that NHS NSS had played in the response to the Covid-19 pandemic and the strong partnership working that supported the procurement of Personal Protective Equipment (PPE) and the roll out of the vaccination programme. I also highlighted the use of emergency procurement provision to award contracts and the reduced transparency due to contract award notices not being published within the required timescales.

These areas remained a focus for the audit team and the 2021/22 annual audit report states that emergency Covid-19 procurement arrangements have ended and PPE procurement has reverted back to standard arrangements. The report also highlights the Information Commissioner's Office reprimand over the use of personal data within the NHS Scotland Covid status application (vaccine passport) and notes the improvements that have been made to security measures to address the findings.

NHS NSS is still heavily reliant on non-recurring funding and NHS funding is an area that will be covered in my NHS in Scotland 2022 report, due for publication in February 2023.

With best wishes



Stephen Boyle  
**Auditor General for Scotland**

# NHS National Services Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland

1 August 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Material adjustments have been made to the annual accounts as a result of the audit process. The impact of these adjustments was a small decrease in net expenditure of £0.012 million, however the net assets in the Statement of Financial Position increased by £20.2 million.

## Financial management and sustainability

- 3 NHS NSS operated within its revised £833 million revenue resource limit for 2021/22.
- 4 The pandemic has had a significant impact on NHS NSS's 2021/22 finances. The board received additional Covid-19 funding of £316 million. The financial impact of Covid-19 related activity is fully funded in the short term but the medium-term impact remains uncertain.
- 5 The financial plan 2022/23 – 2024/25 forecasts a challenging revenue position for Strategic Business Units of up to £6.3 million in 2024/25.
- 6 NHS NSS continues to rely on a high level of non-recurring funding. This makes it more difficult to deliver transformation plans due to the increased funding uncertainty. Service transformation plans, which were paused to focus on the response to the Covid-19 pandemic, are now progressing.

## Governance, transparency and value for money

- 7 NHS NSS continued to play a vital role in the national response to the Covid-19 pandemic while also maintaining delivery of its services.
- 8 NHS NSS has effective leadership and appropriate governance arrangements to support the scrutiny of decisions, although transparency could be improved.
- 9 Emergency Covid-19 procurement arrangements have ended and procurement has reverted back to standard arrangements.
- 10 There are clear links between NHS NSS's financial, workforce and estates planning. This helps demonstrate the effective use of resources and supports continuous improvement.

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# Introduction

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**1.** This report summarises the findings from our 2021/22 audit of NHS National Services Scotland (NHS NSS). The scope of our audit was set out in our Annual Audit Plan presented to the 9 June 2022 meeting of the Audit and Risk Committee after being finalised with management in April 2022. This report comprises the findings from our audit of the body's annual report and accounts and consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#).

**2.** The main elements of our audit work in 2021/22 have been:

- an audit of NHS NSS's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS NSS's key financial systems
- consideration of the four audit dimensions.

**3.** The global coronavirus pandemic continued to have a considerable impact on NHS NSS during 2021/22. NHS NSS provided support in areas such as the Covid-19 vaccination programme, purchase and distribution of Personal Protective Equipment (PPE), operation of the National Contact Centre and using digital innovation to strengthen service resilience across the health sector amongst others. Risks related to the pandemic were included in our Annual Audit Plan and we have adapted our planned audit work to address any new emerging risks.

## Adding value through the audit

**4.** We add value to NHS NSS by:

- identifying and providing insight on significant risks and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 2) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

**5.** 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

6. 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.
7. NHS NSS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
8. 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 financial management and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. 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.
10. 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 actions from last year and the progress that has been made.

## Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the [Code of Audit Practice 2016](#) 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.
12. 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 2021/22 audit fee of £195,300, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://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.

## Audit appointment from 2022/23

**14.** The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2021/22 was a one-year extension and is the last year of the current audit appointment round.

**15.** The procurement process for the new audit appointments was completed in May 2022. Audit Scotland will continue as the appointed auditor for NHS NSS for the new round of appointments starting in 2022/23. We will work closely with the new audit team to ensure a well-managed transition.

**16.** The new auditors will follow a new Code of Audit Practice which applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**17.** We would like to thank board members, audit committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

Material adjustments have been made to the annual accounts as a result of the audit process. The impact of these adjustments was a small decrease in net expenditure of £0.012 million, however the net assets in the Statement of Financial Position increased by £20.2 million.

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## Our audit opinions on the annual report and accounts are unmodified

**18.** The board approved the annual report and accounts for the year ended 31 March 2022 on 29 July 2022. 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.

## The Covid-19 pandemic had a limited impact on audit evidence

**19.** We have modified some aspects of the way we confirm completeness and accuracy of accounting records due to access restrictions. We were unable to physically confirm the existence of assets and instead received photos to verify the sample selected by the audit team. In addition instead of attending a stock count in person we observed it virtually using FaceTime on a mobile device.

**20.** The working papers provided to support the annual report and accounts were of a good standard and the audit team received support from finance staff which helped ensure the audit process went smoothly.



## Reporting deadlines are recovering from the impact of the Covid-19 pandemic

**21.** The Scottish Government has returned the deadline for the submission of health board audited annual report and accounts back to 30 June 2022. Prior to the deadline announcement the audit team and NHS NSS agreed that they would aim for submission by the end of July 2022 with a view to continuing the recovery from the Covid-19 pandemic.

**22.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 10 May 2022.

## Overall materiality was revised on receipt of the unaudited annual report and accounts to £10.3 million

**23.** Our initial assessment of materiality (£9 million) was carried out during the planning phase of the audit. This was reviewed and revised to £10.3 million on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). The revised materiality levels did not require a change in our audit approach as it did not change the assessment of material account areas.

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£10.3 million
Performance materiality	£5.1 million
Reporting threshold	£156,000

Source: Audit Scotland

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## We have significant findings to report on the annual report and accounts

**24.** 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. The significant findings are summarised in [Exhibit 2](#).

**Exhibit 2****Significant findings from the audit of the financial statements**

Issue	Resolution
<p><b>1. Overstatement of payables due to the inclusion of pharmacy rebates</b></p> <p>Pharmacy rebates are passthrough cashflows which are excluded from NHS NSS's financial statements. NHS NSS pass these rebates on to the territorial health boards and they are accounted for in the financial statements of those boards. £7.5 million of pharmacy rebates were incorrectly added to year end balances instead of being removed, overstating the Trade and Other Payables balance by £15 million. In addition a further £5.1 million of pharmacy rebates was identified as incorrectly included in Trade and Other Payables.</p>	<p>The financial statements have been adjusted by £20.2 million to remove the pharmacy rebates from the Statement of Financial Position.</p> <p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity are excluded from the NHS NSS financial statements.</p> <p><b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. Classification errors</b></p> <p>There were a number of classification errors within the disclosures notes i.e. valid transactions or balances shown in the wrong line of the note.</p> <p>A £4.8 million prepayment to an NHS trust in England was included in NHS Non-Scottish Bodies rather than repayments in Note 9 Trade and other receivables.</p> <p>£26.1 million of Goods Received Not Invoiced were included in Trade Payables rather than Accruals in Note 11 Trade and Other Payables.</p> <p>£0.3 million Clinical Services Income was included in Non-Clinical Services Income within Note 4 Operating Income.</p> <p>£0.8 million grant payments were incorrectly treated as Accruals rather than Deferred Income in Note 11 Trade and Other Payables.</p> <p>A £0.5 million Government Banking Service euro account was included in Cash at Bank and in Hand rather than Government Banking Service account in Note 10 Cash and Cash Equivalents.</p> <p>In Note 3b Other Operating Expenditure, £13.3 million PPE costs disclosed as part of PPE and Testing Kits expenditure were incorrectly adjusted for in both Corporate Services and Procurement Commissioning and Facilities Non-Clinical expenditure.</p> <p>£4.0 million receivable from the Scottish Government was incorrectly classified in Note 9 Trade and Other Receivables, as Balances with Bodies External to Government rather than Central Government Bodies.</p>	<p>The classification of these items has been corrected in the revised accounts.</p> <p>These adjustments have no impact on the primary financial statements as the misclassification was between lines in the notes to the accounts.</p> <p><b>Recommendation 2</b> (refer <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p><b>3. Mis-posting of accrual reversal</b></p> <p>An accrual reversal of £1.8 million was incorrectly posted to prepayments in Trade and Other Receivables rather than accruals in Trade and Other Payables.</p>	<p>The financial statements have been adjusted to correct this.</p> <p>There was no impact on the overall net asset position.</p>

Source: Audit Scotland

**25.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. Management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Assessed design and implementation of controls over journal entry processing.</li> <li>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity.</li> <li>Tested journals at the year-end and post-closing entries and focused on significant risk areas.</li> <li>Evaluated significant transactions outside the normal course of business.</li> <li>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>Focused testing of accounting accruals and prepayments.</li> </ul>	<p>Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness.</p> <p><b>Conclusion:</b> No incidents of management override of controls were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>2. Estimation in the valuation of land and buildings</b></p> <p>NHS NSS holds land and buildings with a value of £53 million. A five-year rolling programme of valuations, carried out by an external valuer, is in place.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on assumptions made by specialist valuers and management. Changes in these can have a material impact on the valuation.</p>	<ul style="list-style-type: none"> <li>• Reviewed the information provided to the external valuer to assess for completeness.</li> <li>• Evaluated the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Obtained an understanding of management's involvement in the valuation process to assess the appropriateness of oversight.</li> <li>• Critically assessed how the estimation was arrived at.</li> <li>• Established and critically assessed the approach management adopted to assess the value of assets not subject to revaluation in year.</li> <li>• Challenged management's assessment of the assets not subject to revaluation in year.</li> <li>• Critically assessed the adequacy of NHS NSS disclosures regarding the assumptions in relation to the valuation of land and buildings.</li> </ul>	<p>Discussions with finance, facilities and the valuer on the valuation process. Facilities and finance do not formally record their review of the list of properties to be valued each year: formalising this review would create an audit trail for management oversight of the process.</p> <p>We also reviewed the valuation reports and agreed them to the disclosures in the annual report and accounts with no issues identified.</p> <p><b>Conclusion:</b> No significant issues were identified in the estimates used in the valuation of the land and buildings in the annual report and accounts.</p>
<p><b>3. Risk of material misstatement cause by fraud in expenditure</b></p> <p>Practice Note 10 extends the requirements of ISA 240 to include the consideration of fraud in expenditure for public bodies. This is a significant risk for NHS NSS due to the complexity of a number of the expenditure streams and the significant procurement and contracting it undertakes.</p>	<ul style="list-style-type: none"> <li>• Undertook analytical procedures over expenditure streams.</li> <li>• Focused testing of PPE transactions to assess appropriateness of governance and contract award arrangements.</li> <li>• Detailed substantive testing of payments made under contracts, including those for PPE.</li> <li>• Detailed substantive testing of expenditure transactions across the financial year.</li> <li>• Cut-off testing focused on post year end payments confirming they were recorded in the correct year.</li> </ul>	<p>Detailed testing of expenditure transactions as well as focused testing of PPE transactions was undertaken.</p> <p><b>Conclusion:</b> No incidents of fraud were identified.</p>

Source: Audit Scotland

## Other areas of audit focus

**26.** In addition, as part of our 2021/22 Annual Audit Plan, we identified one other area where we considered there was a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not however consider this to be significant.

**27.** This area of specific audit focus related to the valuation of PPE. We recognised a risk around pandemic stock valuation due to the volume of stock, the varying costs across suppliers and stock type and timing. We kept this area under review throughout our audit and based on the findings of the audit procedures performed, we concluded that the stock valuation in the financial statements was appropriate.

## Identified misstatements of £20.2 million were adjusted

**28.** Total misstatements identified were £20.2 million and related to errors in accruals as reported in [Exhibit 2](#) above. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

**29.** Adjustments made to the audited financial statements decreased net expenditure in the Statement of Comprehensive Net Expenditure by £0.012 million and increased net assets in the Statement of Financial Position by £20.2 million.

**30.** One misstatement of £0.5 million was identified that has not been adjusted in the accounts, as management considers that it is not a material amount. This was an accrual for a contract change notice (CCN) received on 31 March 2022. However, the CCN was subsequently cancelled and a new one issued in April 2022, so this should be accounted for as 2022/23 expenditure. If adjusted it would decrease net expenditure in the Statement of Comprehensive Net Expenditure by £0.5 million and increase net assets in the Statement of Financial Position by the same amount.

**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.

## Good progress was made on prior year recommendations

**32.** NHS NSS has made progress in implementing our prior year audit recommendations as set out in [Appendix 1](#). NHS NSS has continued to improve the standard of the unaudited annual report and accounts.

## 2. Financial management

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

### Main judgements

NHS NSS has effective financial management arrangements in place and operated within its revised Revenue Resource Limit of £833 million.

NHS NSS continued to operate appropriate budget setting and monitoring processes which reflect the additional Covid-19 expenditure and funding.

Systems of internal control are working effectively and reflect new ways of working with standards for the prevention and detection of fraud and error properly maintained.

The service auditor provided unqualified opinions for all areas in 2021/22. NHS NSS has worked closely with the service auditor to address the previous issues.

### NHS NSS operated within its Revenue Resource Limit (RRL) of £833 million

**33.** The Scottish Government Health and Social Care Directorate (SGHSCD) sets annual resource limits and cash requirements which NHS boards are required to work within. In response to the pandemic, throughout 2021/22, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic. [Exhibit 4](#) shows that NHS NSS operated within its limits during 2021/22.

#### Exhibit 4 Performance against resource limits in 2021/22

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	840.727	840.455	0.272
Non-core revenue resource limit	(7.406)	(7.406)	0
<b>Total revenue resource limit</b>	<b>833.321</b>	<b>833.049</b>	<b>0.272</b>

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Capital resource limit	23.110	22.847	0.263
<b>Total capital resource limit</b>	<b>23.110</b>	<b>22.847</b>	<b>0.263</b>
<b>Cash requirement</b>	<b>845.925</b>	<b>845.925</b>	<b>0</b>

Source: NHS NSS Annual Report and Accounts 2021/22

## Budget processes were appropriate, but NHS NSS's key role in the pandemic response had a significant financial impact

**34.** In February 2021 NHS NSS's 2021/22 financial plan was submitted to the Scottish Government. It included an overall gross expenditure budget of £877.6 million and a core revenue resource limit of £515.8 million. As part of NHS re-mobilisation, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 response activity. These estimates were kept under review and reported in published plans to the Scottish Government on a regular basis.

**35.** As a result of Covid-19, the Scottish Government changed the requirement for boards to have a revenue spending plan over a three-year period and capital expenditure plans over five years. Boards were required to finalise Remobilisation Plans and a supporting one-year financial plan for 2021/22. The Scottish Government plans to revisit longer-term financial planning when the NHS is no longer on an emergency footing.

**36.** Despite this NHS NSS continues to develop a forward Financial Plan (2022/23 to 2023/24) to inform its wider strategic direction, helping shape new ways of working and service transformation requirements.

**37.** NHS NSS received additional funding from the Scottish Government for the impact of Covid-19. The major areas of additional expenditure at NHS NSS, as a result of the Covid-19 response, included:

- £103.7 million for the purchase of PPE (net of PPE recharged to boards)
- £64.5 million in respect of testing kits (excluding kits recharged to boards)
- A total of £60.7 million spent on the vaccination programme
- Contact tracing costs of £37.3 million.

**38.** NHS NSS also had Covid-19 related capital expenditure of £18 million in 2021/22 to complete the construction and equipping of testing laboratories in Aberdeen, Edinburgh and Glasgow.

## NHS NSS delivered £17.4 million of efficiency savings in 2021/22

**39.** During 2021/22 NHS NSS achieved total cash releasing efficiency savings (CRES) of £17.4 million: £6.9 million by NHS NSS and £10.5 million by the National Services Division. This exceeded the targeted outturn of £13.4 million (5 per cent of baseline budget). Strategic Business Units (SBUs) continue to have difficulty in delivering planned CRES initiatives on a recurring basis, which reflects NHS NSS's reliance on non-recurring funding (41 per cent of NHS NSS's funding in 2021/22 was non-recurring as reported at [paragraph 51.](#)). It is difficult to transform services to achieve recurring savings when there is no guarantee that the funding to support it will be forthcoming. Of the £6.9 million savings in 2021/22, 41 per cent (£2.8 million) relates to non-recurring in year savings.

## Financial systems of internal control are operating effectively

**40.** As part of our audit, we identify and inspect the key internal controls in the accounting systems we regard as significant in the production of the financial statements. Our objective is to gain assurance that NHS NSS has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**41.** Our management letter was issued to the Audit and Risk Committee in June 2022 and included our findings from the review of systems of internal control. We did not identify any internal control weaknesses 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. A small number of control weaknesses were identified and we adjusted our audit approach to ensure sufficient assurance was obtained.

## NHS NSS controls over practitioner service operated effectively during the year

**42.** The NHS in Scotland procures several service audits each year to provide assurance on the controls operating in shared systems: NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance report in relation to the NSI eFinancials was unqualified.

**43.** NHS NSS procures service audits covering primary care payments (Practitioner and Counter Fraud Services), the national IT services contract and the payroll services provided by NHS NSS. The conclusion of each service auditor assurance report was:

- Primary care payments – unqualified with emphasis of matter paragraph due to exceptions relating to evidence of review
- National IT services – unqualified with emphasis of matter paragraph due to exceptions relating to manual maintenance of user listing and list of changes
- Payroll services – unqualified.



**44.** The NHS NSS service auditor's assurance report in relation to primary care payments was qualified in 2020/21 due to areas where there was insufficient documentary evidence of verification and reconciliation checks on which to conclude (rather than a finding that controls were absent or not operating). There were no qualifications in any of the reports for 2021/22.

### **Standards of conduct for prevention and detection of fraud and error are appropriate**

**45.** There are appropriate arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and for standards of conduct. The board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

### **Good practice**

**46.** The [\*Code of Audit Practice 2016\*](#) encourages auditors to identify good practice which is worth sharing more widely. NHS NSS's decision to continue to develop a forward financial plan (spanning the three years to 2024) to inform its wider strategic objective despite only needing to have an annual financial plan for 2021/22 is good practice. It shows the board is planning strategically beyond the current financial year despite the impact of the pandemic.

# 3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

## Main judgements

NHS NSS's financial plan 2022/23 forecasts a challenging revenue position for Strategic Business Units of up to £6.3 million in 2024/25.

NHS NSS continues to rely on a high level of non-recurring funding. This makes it more difficult to deliver transformation plans as there is less certainty over future funding. Service transformation plans, which were paused to focus on the response to the Covid-19 pandemic, are now progressing.

## Audit work has covered the wider scope risk identified in our Annual Audit Plan on financial sustainability

47. [Exhibit 5](#) sets out the significant risk we identified in our 2021/22 Annual Audit Plan, our assurance procedures and the conclusions from our work.

### Exhibit 5

#### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial Sustainability</b></p> <p>Strategic Business Units (SBUs) continue to rely on non-recurring savings to achieve financial balance. The delivery of the planned recurring savings initiatives remains challenging.</p> <p>NHS NSS will need to implement recurring savings initiatives to ensure financial sustainability. This is further exacerbated by the current level of inflation that makes savings from contract negotiations particularly challenging.</p>	<ul style="list-style-type: none"> <li>Considered the Financial Sustainability Action Plan.</li> <li>Reviewed the financial performance returns to the Scottish Government and internal reporting.</li> <li>High level review of NHS NSS procurement governance.</li> </ul>	<p>Financial management and planning is appropriate. NHS NSS achieved its target savings in 2021/22, however a high percentage continue to be non-recurring in nature.</p> <p><b>Conclusion:</b> NHS NSS needs to continue its focus on financial sustainability with robust planning in the immediate and longer term.</p>

## Covid-19 funding has significantly increased NHS NSS's revenue funding but there is still uncertainty around future funding

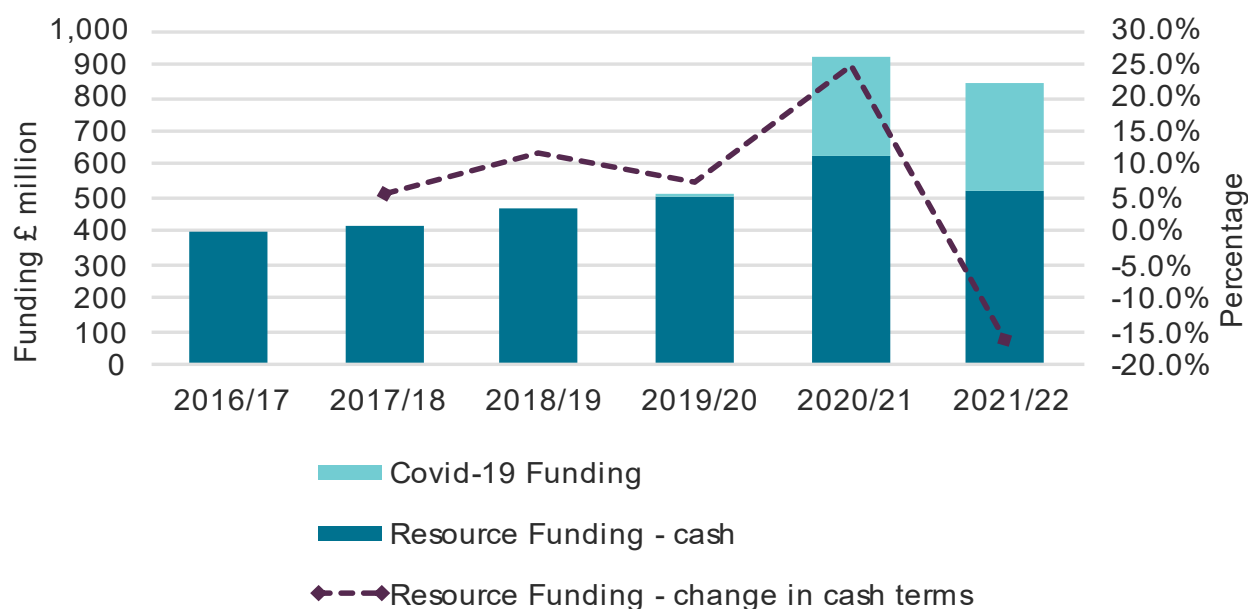
**48.** Core revenue funding (excluding additional Covid-19 funding) to NHS NSS in 2021/22 from the Scottish Government increased by one per cent in cash terms compared to 2020/21 ([Exhibit 6](#)) with £316 million extra provided for Covid-19 in 2021/22.

**49.** The current 2022/23 NHS NSS financial plan includes a further rise in baseline funding of £3.5 million (2 per cent) across all services to cover pay and non-pay inflation.

**50.** [Exhibit 6](#) makes it clear that the funding allocation for NHS NSS reflected a continued focus on responding to the pandemic. While the Scottish Government has confirmed that Covid-19 costs and services will be fully funded in 2022/23, there is a significant funding gap against the current £1.1 billion forecast cost across NHS Scotland. It is clear that the scope of services provided will be very different in financial year 2022/23 due to affordability. There is ongoing work at NHS NSS to challenge and scenario plan across all Covid-19 services.

### Exhibit 6

#### Movement in cash terms of revenue resource funding between 2016/17 and 2021/22



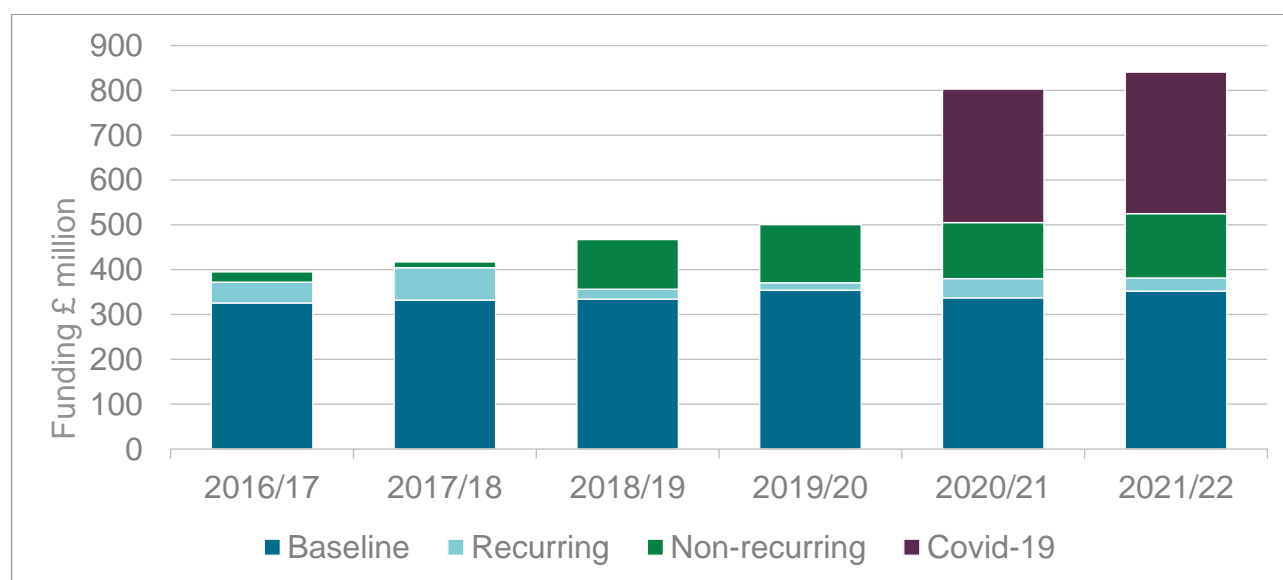
Source: NHS NSS Final Allocation Letters / Audit Scotland

**51.** An analysis of revenue funding between 2016/17 and 2021/22, detailed in [Exhibit 7](#), shows that NHS NSS is now heavily reliant on the receipt of non-recurring funding to deliver services. In 2016/17 non-recurring funding represented 7 per cent of baseline funding, however in 2021/22 this had increased to 41 per cent.

**52.** Reliance on non-recurring funding limits the ability of NHS NSS to effectively plan and resource future developments. Our prior year recommendation remains relevant: NHS NSS should work with the Scottish Government to agree future recurring funding which reflects its expanding role.

## Exhibit 7

### Split of revenue funding showing increasing reliance on non-recurring elements



Source: NHS NSS Financial Allocation Letters

## Medium and long term financial plans should be revised following the Covid-19 pandemic

**53.** The requirement to produce three-year financial plans as part of the medium-term financial framework was paused due to the pandemic. NHS boards were asked to complete a one-year plan for 2021/22.

**54.** NHS NSS's remobilisation plan is supported by detailed financial projections. Although the 2021/22 external reporting requirement was for one financial year, NHS NSS continued to produce a three-year high level financial plan with the current plan covering 2022/23 – 2024/25. This puts them in a strong position to strategically respond when the Scottish requirements for medium-term financial planning return.

**55.** The plan recognises that delivering a balanced position is dependent on rigorous challenge of discretionary spend, realising financial benefits from investments and service developments; ensuring workforce plans reflect the strategic intent from transforming NHS NSS's services and embracing new ways of working.

**56.** It recognises that the pandemic has provided significant pressures in the delivery of new services alongside opportunities for the way NHS NSS will deliver services in the short and medium term. The 2022/23 financial plan projects an increasing trading deficit revenue position for SBUs from £1.5 million in 2022/23 to £6.3 million in 2024/25 resulting in little to no investment funding available for prioritised service developments in each year.

**57.** The 5 per cent CRES retained from SBU baselines each year on a recurring basis provides a source of funds to be available for distribution corporately as part of the Resource Allocation Management process to meet additional pressures and fund service developments. This has provided useful flexibility in financial planning in recent years, SBUs however continue to find meeting the CRES targets increasingly challenging.

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### Recommendation 3

**NHS NSS must continue to support SBUs to minimise projected deficits.**

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#### **Service transformation plans have started to come back on stream after some delays due to the pandemic**

**58.** Service transformation was delayed as NHS NSS had to focus on its key role in responding to the Covid-19 pandemic which impacting on its capacity to progress other areas. Transformation is a key factor supporting the longer-term financial sustainability of NHS NSS. This will be an area of focus moving forward with governance from the Change Oversight Group and regular reporting of progress into the Finance Procurement and Performance Committee. NHS NSS expects that SBU transformation projects will be prioritised based on values and readiness.

**59.** NHS NSS has a 2022/23 service transformation roadmap in place to support delivery. The roadmap sets clear timescales for each of the service transformation programmes. The Service Design Hub (SDH) was established to expand the delivery approaches utilised within NHS NSS Programme Management Services. The SDH team was positioned as an appropriate partner to support NHS NSS in delivering transformational change by identifying opportunities for service re-design, process re-engineering and whole system transformational change.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

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## Main judgements

NHS NSS has appropriate governance arrangements in place that support scrutiny of decisions.

Openness and transparency could be improved by ensuring wider online access to Board papers.

Emergency procurement arrangements for PPE ended and standard procurement restarted in 2021/22.

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## Governance arrangements are appropriate

**60.** The continued impact of Covid-19 on NHS NSS during 2021/22, and the vital role NHS NSS continues to play in NHS Scotland's response, has been set out in the performance report in the annual report and accounts. We reported in our 2019/20 annual report on the revised governance arrangements introduced by NHS NSS due to the Covid-19 pandemic. During 2021/22 all board and committee meetings continued to be held virtually.

**61.** We concluded that NHS NSS has appropriate governance arrangements in place with the Governance Statement in the annual report and accounts disclosing the arrangements.

**62.** In making this assessment we considered the structure and conduct of virtual board and committee meetings, overall arrangements to ensure appropriate standards of conduct, arrangements for the prevention and detection of fraud, error, bribery and corruption, including the response to the National Fraud Initiative and reporting of performance and whether this is fair, balanced and understandable.

## Openness and transparency could be improved

**63.** Openness and transparency is how an organisation operates and makes decisions and ensures that the public have access to understandable, relevant and timely information about board decisions and how it is using resources such as money, people and assets.

**64.** The availability of information online continues to be important in the current climate. This is particularly so for an organisation like NHS NSS which continues to have a significant role in the Covid-19 response.

**65.** There is scope to strengthen NHS NSS's approach to openness and transparency by taking advantage of the relaunched website and ensuring that information is made available virtually. To support improved openness and transparency, it is important that board papers, which include committee minutes, are made available on the website as a public record of decision making. Board papers pre-December 2020 are currently unavailable online and are only made available to the public on request.

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## Recommendation 4

**NHS NSS should leverage the opportunities that a virtual presence provides and use that to improve the availability and accessibility of information to the public.**

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### Improvements made to security measures to address Information Commissioner's Office (ICO) findings

**66.** In February 2022 the ICO reprimanded the Scottish Government and NHS NSS over the NHS Scotland Covid status application (vaccine passport). Full details of the vaccine passport were provided to the ICO three days before the mandatory vaccination and Covid status checks were due to be rolled out and the ICO raised concerns about the use of personal data.

**67.** The vaccine passport was launched on 30 September 2021 in accordance with the planned timeline but the ICO's concerns were not fully addressed. NHS NSS implemented improvements to security measures to address the ICO's findings and in May 2022 the ICO issued a closure letter. The letter noted the improvements that had been made and concluded that no further investigation or action was required.

### Emergency Covid-19 procurement arrangements have ended and PPE procurement has reverted back to standard arrangements

**68.** We followed up our prior year audit work on PPE procurement to confirm that emergency procurement arrangements introduced at the start of the pandemic had ended, reverting to standard procurement arrangements. We reviewed a sample of 2021/22 payments to suppliers to confirm that there was an appropriate contract in place. We concluded that procurement arrangements have reverted back to normal, but we noted one error in our testing sample.

**69.** We noted one payment for £61,380 which related to an auto-generated purchase order placed after the contract with the supplier had expired. This order should have been redirected to a current contract with a different supplier, but the reorder level had not been updated on the warehouse management system.

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## Recommendation 5

NHS NSS should ensure that relevant procurement systems are updated to reflect contract end dates.

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**70.** We also completed audit work on the PPE and testing kit stock allocation and valuation arrangements to enable us provide assurance to other NHS auditors on the valuation of pandemic PPE stock and test kits procured by NHS NSS and the UK Government and issued to other public sector bodies.



# 5. Value for money

Using resources effectively and continually improving services.

## Main judgements

NHS NSS has clear links between its financial, workforce and estates planning. This helps demonstrate that it is using its resources effectively and supports continuous improvement.

Overall performance against targets was good despite the impact of the Covid-19 pandemic.

Progress has been made in formalising NHS NSS's approach to ICT contract management, with clear plans in place for further improvement.

## Audit work has covered the wider scope risks identified in our Annual Audit Plan on ICT contract management and strategic leadership

71. [Exhibit 8](#) sets out the significant risk we identified in our 2021/22 Annual Audit Plan, our assurance procedures and the conclusions from our work.

### Exhibit 8

#### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>ICT contract management</b></p> <p>NHS NSS has extensive contract procurement and management responsibilities. This is spread across a range of contracts and national frameworks discharged through Digital and Security (DaS) and Procurement Commissioning and Facilities (PCF).</p> <p>There is currently no consistent documentation of the overall governance arrangements for ICT contract procurement and management.</p>	<ul style="list-style-type: none"> <li>• SFIs have been amended to strengthen the governance and oversight of ICT contracts.</li> <li>• The Contracts Approval Board oversees all ICT contracts &gt;£100k.</li> <li>• The eHealth Procurement Team are based in DaS and collaborate effectively with NP colleagues.</li> <li>• Work is underway to align the ATOS contracting arrangements with NHS NSS procurement governance.</li> </ul>	<p>A contract register of all contracts NHS NSS is involved in (its own contracts and those managed on behalf of others) has been drafted. We are satisfied that there are clear plans in place to deliver this work.</p> <p><b>Conclusion:</b> Progress has been made in formalising NHS NSS's approach to ICT contract management.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>Strategic leadership</b></p> <p>NHS NSS has played a critical role in Scotland's Covid-19 response. It continues to work in a high pressured and fast changing environment.</p> <p>There will be additional pressure on a number of SBUs due to the loss and change of directors while trying to deliver a number of key programmes.</p>	<ul style="list-style-type: none"> <li>• The turnover experienced in senior leadership has enabled the Executive Management Team (EMT) to be strengthened.</li> <li>• The Directors of National Services Division (NSD), National Procurement (NP) and NHS Scotland Assure have joined EMT. The post of Procurement, Commissioning &amp; Facilities Director was not replaced.</li> <li>• The recruitment of remaining SBU Director vacancies is a key priority.</li> <li>• The Director of Finance will provide interim leadership for Digital and Security to support this critical service until a Director is appointed early in the new financial year.</li> </ul>	<p>We reviewed workforce planning arrangements and the board's progress in reviewing strategic leadership capacity.</p> <p>New directors have been appointed in Digital and Security and the Scottish National Blood Transfusion Service. Rather than replacing the role of Director of Procurement, Commissioning and Facilities, the board decided to have the three directors who previously reported to that Director added to the executive management team so there is greater visibility of those directorates at board level. The Director of the Central Legal Office (CLO) has now retired; the Director of Finance is currently also Interim Director of CLO and arrangements are in place for recruiting to the CLO Director role.</p> <p><b>Conclusion:</b> There is effective leadership and strategic direction which continues when there are changes at the senior manager level.</p>

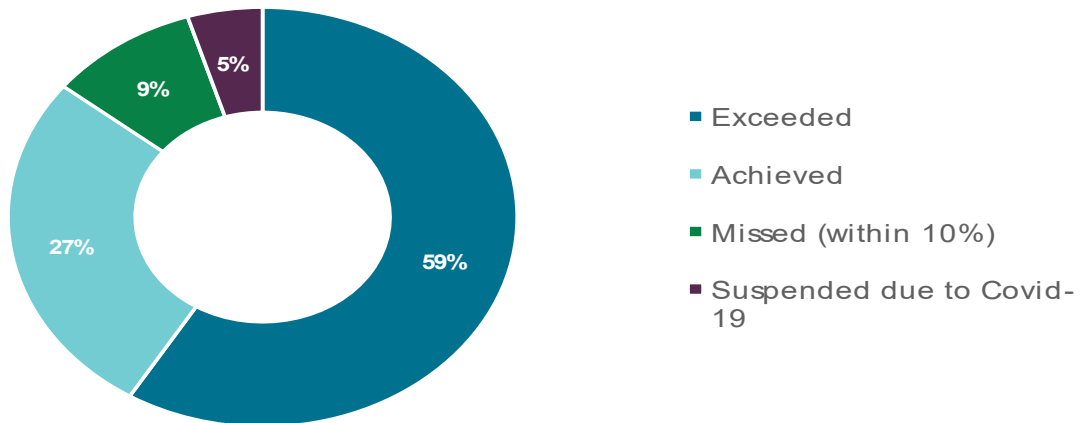
Source: Audit Scotland

## Performance against 2021/22 targets was good despite the impact of Covid-19 and this has been clearly reported

**72.** NHS NSS achieved 90 per cent of the commitments made in its 2021/22 Remobilisation Plan. At the start of the year NHS NSS had 51 commitments in its Remobilisation Plan. Updates during the year confirmed that as commitments were completed in year, new commitments were added, reflecting the changing circumstances. At 31 March 2022 there were 63 commitments being measured and overall performance is shown in [Exhibit 9](#).

## Exhibit 9

### Performance against Remobilisation Plan targets in 2021/22



Source: NHS NSS performance report

**73.** Our audit work has considered the reporting of performance and concluded that NHS NSS has been clear and transparent on the impact of Covid-19 on the outcomes achieved. Given the challenges faced by NHS NSS and the critical role it played in responding to the pandemic the overall performance reported in 2021/22 was good.

### A CHI & Child Health Transformation programme contract has been terminated

**74.** NHS NSS contracts for national ICT programmes on behalf of NHS Scotland. Each programme is managed by a programme board, led by a health board chief executive. The CHI & Child Health Transformation Programme Board agreed in 2021/22 to terminate the contract with the supplier for the Child Health part of the programme. NHS NSS expenditure to date for this supplier on this programme, which has been capitalised as intangible assets under development, was impaired by £2 million as at 31 March 2022. A full and final payment of £1.3 million has been made to the supplier on termination of the contract. Further work is now underway to determine the future plans for Child Health Transformation.

### There are clear links between financial, workforce and estates planning to focus on continuous improvement

**75.** *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.

**76.** Our wider dimension audit work has confirmed that NHS NSS has clear links between its financial, workforce and estates planning and is focused on continuous improvement of services. These are key elements of securing best value.

### **National performance audit reports**

**77.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the board and are highlighted in [Appendix 2](#).

**78.** The NHS in Scotland Report on the 2021/22 audits will include a review of the impact of the Covid-19 pandemic on the treatment of patients and NHS boards' plans to address any backlogs in the treatment of patients. The report will also cover the deliverability of NHS recovery plans, including a review of performance against the Clinical Prioritisation Framework, and report on financial performance during the year. This is due to be published early in 2023.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Removal of passthrough transactions and balances</b></p> <p>The removal of pharmacy rebate balances at the year-end was posted the wrong way round, adding to balances rather than deducting them from NHS NSS balances.</p> <p><b>Risk</b> – the financial statements are materially misstated.</p>	<p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity are excluded from the NHS NSS financial statements.</p> <p><a href="#">Exhibit 2 no.1</a></p>	<p>The removal of these balances will now be transacted through the financial ledgers and specific balance sheet codes. This will avoid the need for manual calculations at the end of the financial year.</p> <p><b>Associate Director of Finance</b></p> <p><b>Completed July 2022</b></p>
<p><b>2. Classification errors</b></p> <p>There were a number of items identified as misclassified i.e. they were valid transactions or balances but were shown on the wrong line of the disclosure note in the annual accounts.</p> <p><b>Risk</b> – the financial statements are materially misstated.</p>	<p>Processes should be strengthened to improve the accuracy of ledger coding.</p> <p><a href="#">Exhibit 2 no.2</a></p>	<p>A lessons learned session will be carried out to review and improve the planning, production and review of the accounts prior to audit starting. We will also provide further training to staff to ensure transactions are posted correctly first time and introduce additional reviews to correct mis postings promptly.</p> <p><b>Associate Director of Finance</b></p> <p><b>September 2022</b></p>
<p><b>3. Medium term financial plan projected deficit</b></p> <p>The financial plan 2022/23 to 2024/25 projects an increasing trading deficit revenue position for SBUs</p>	<p>NHS NSS must continue to support SBUs to minimise projected deficits.</p> <p><a href="#">Paragraph 57.</a></p>	<p>NSS is committed to ensuring its services are financial sustainable in the immediate and longer term – with a strategic objective to have “an organisational financial stewardship culture that will</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>from £1.5 million in 2022/23 to £6.3 million in 2024/25.</p> <p><b>Risk</b> – services are not financially sustainable.</p>		<p>drive effective use of assets, infrastructure and value for money”</p> <p>A Financial Sustainability Action Plan has been developed and agreed – this includes a number of (related) initiatives which will drive financial sustainability - with regular progress updates provided to FPPC.</p> <p>One of the key deliverables is the implementation of costing software so there is a consistent, effective approach to preparing and analysing the detailed costs for each main service that NSS delivers</p> <p>This will provide objective data to consider the appropriateness of (1) current baseline funding distribution and (2) a common 5% CRES target for all SBUs / services.</p> <p>Whilst funding pressures and inflation is impacting on all services, this is more acute for some SBUs / services than others – so objective, consistent analysis will help inform decision making (at a SBU and Corporate level) by highlighting risks and opportunities, minimising projected deficits and improving the overall financial sustainability of NSS</p> <p><b>Deputy Director of Finance</b> <b>March 2023</b></p>
<p><b>4. Openness and transparency</b></p> <p>The NHS NSS website has been updated with information on how board papers pre-December 2020 can be accessed. These</p>	<p>NHS NSS should leverage the opportunities that a virtual presence provides and use that to improve the availability and accessibility of information to the public.</p>	<p>NSS publish board agendas, minutes and papers on our website after each meeting. The website provides guidance and contact for requesting papers prior to December 2020. Committee</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>papers are not available on the website.</p> <p>Public availability of Board papers, which include minutes of all committees, is important for transparency in decision making.</p> <p><b>Risk</b> – NHS NSS is not seen to be operating in an open and transparent manner.</p>	<p><a href="#">Paragraph 65.</a></p>	<p>meetings are not public meetings and therefore papers are not published on the website, however the Board receives minutes of the Committee meetings on a quarterly basis and these are included in the Board papers.</p> <p>We will review best practice guidance for publishing Board papers and implement any findings.</p> <p><b>Interim Board Secretary</b> <b>December 2022</b></p>
<p><b>5. Procurement systems</b></p> <p>Audit testing identified a payment for an order placed with a supplier after the contract had expired. The warehouse management system had not been updated to redirect orders to a current contract with a different supplier.</p> <p><b>Risk</b> – payments are made without a valid contract in place.</p>	<p>NHS NSS should ensure that relevant procurement systems are updated to reflect contract end dates.</p> <p><a href="#">Paragraph 69.</a></p>	<p>The products or Stock Keeping Units (SKUs) sampled here are known as FFP3 respirators and quite unique, in that a specific product needs to be 'face fitted' to the user as the respirator must have tight contact with the skin to be effective in blocking out airborne particles.</p> <p>This spend was triggered due to a request from NHS Highland, for a SKU which they had previously requested and had been using. This was during a period between FFP3 products being 'pushed' to the HB's and HB's placing orders on NP for these respirators. As the SKU requested was for a specific FFP3 respirator and with these needing to be fitted to users the ordering team spotted this and did not look for an alternative SKU as they assumed it was a bespoke request from the HB.</p> <p>We have since introduced a monthly SKU review, where</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>all SKUs which have been superseded are removed from the system viewed by HBs.</p> <p><b>National Procurement Head of Governance</b></p> <p><b>Completed – July 2022</b></p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Redacted audit trail</b></p>	<p>As NHS NSS is a health board which provides some clinical services there should be an agreed redaction protocol to ensure accountability while retaining confidentiality.</p>	<p><b>Complete</b></p> <p>There were no issues obtaining evidence from NSD during the 2021/22 audit.</p>
<p><b>b/f 2. Accuracy of the unaudited financial statements</b></p>	<p>Year-end processes should be strengthened to ensure that all balances related to passthrough activity is excluded from the NHS NSS financial statements.</p>	<p><b>Recommendation 1</b></p> <p>While we acknowledge that some progress has been made in this area, there were still issues identified during 2021/22 in respect of excluding pharmacy rebates.</p>
<p><b>b/f 3. Remuneration report disclosures</b></p>	<p>The process for compiling the remuneration report should be reviewed and strengthened.</p>	<p><b>Complete</b></p> <p>The remuneration report provided to audit was of a good standard.</p>
<p><b>b/f 4. Financial sustainability</b></p>	<p>NHS NSS should work with the Scottish Government to agree future recurring funding which reflects its expanding role.</p>	<p><b>In progress – no further audit follow up proposed</b></p> <p>NHS NSS continues to rely on non-recurring funding.</p>
<p><b>b/f 5. Openness and transparency</b></p>	<p>NHS NSS should explore the opportunities provided by the relaunched website to improve the availability of information to the public.</p>	<p><b>Recommendation 4</b></p> <p>The NHS NSS website has been updated with information on how Board papers pre-December 2020 can be accessed.</p>



Issue/risk	Recommendation	Agreed management action/timing
		Minutes for NHS NSS committees are included in Board papers.
<p><b>b/f 6. Variations in the procurement arrangements applied during the pandemic</b></p>	<p>NHS NSS have been learning and further developing processes throughout the pandemic. At an appropriate time, it will be important to fully reflect and document the lessons learned and share the learning across the public sector. A key area should be the detailed due diligence required prior to awarding contracts.</p>	<p><b>Complete</b></p> <p>Standard business processes now in place and contract award is monitored by a governance team and publication of awards statuses used for all contracts.</p>
<p><b>b/f 7. Demands on the Digital and Security business unit continue to increase.</b></p>	<p>NHS NSS should revisit resource plans, particularly for Digital and Security, to ensure they support the longer-term vision for the service and the additional demands being placed on it.</p>	<p><b>In progress – no further audit follow up proposed</b></p> <p>The DaS transformation process is ongoing with a new Director appointed in 2021/22.</p>

# Appendix 2. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# NHS National Services Scotland

## 2021/22 Annual Audit Report

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