

# NHS Lanarkshire

Interim Audit Report 2016/17



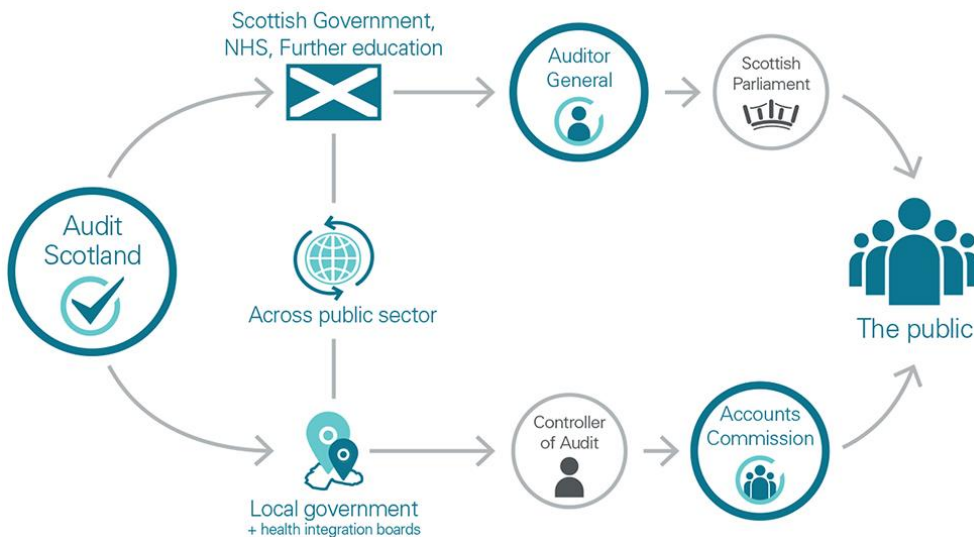
 AUDIT SCOTLAND

Prepared for NHS Lanarkshire  
March 2017

# Who we are

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

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



# About us

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

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

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

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# Audit findings

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## Introduction

**1.** This report contains a summary of the key issues identified during the interim audit work carried out at NHS Lanarkshire (the Board). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

**2.** Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

**3.** Also, under the Code of Audit Practice (2016) we are carrying out work on the wider dimension audit. This will focus on financial management, financial sustainability, governance and transparency and value for money. We are also undertaking a review of Delayed Discharges across Lanarkshire. A separate report will be issued detailing our findings from this work.

## Conclusion

**4.** We identified several control weaknesses, which we do not consider to be significant, from our interim audit work as summarised in [Exhibit 1](#). Where appropriate we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

**5.** In terms of our wider dimension audit work we are currently reviewing the financial planning arrangements of the Board and conducting an ICT health-check which examines the adequacy of the ICT arrangements in place. The findings from this work will be shared with officers and will be reported within our Annual Audit Report which will be presented to the Board in June 2017. Some preliminary findings from our work to date are included in [Exhibit 1](#).

## Work summary

**6.** Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control and feeder system reconciliations.



### Bank reconciliations



### Payroll controls



### IT access



### Budgets

**7.** In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

**8.** The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## Risks identified

**9.** The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

**10.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to NHS Lanarkshire.

## Additional follow-up work

**11.** Whilst no errors have been identified as a result of our audit work to date, the control weaknesses set out in [Exhibit 1](#) mean that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2016/17 financial statements. Specifically this will focus on the verification of the existence of a sample of employees and substantively testing journals.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<p><b>Changes to employee bank details</b></p> <p>Although the Board has arrangements in place for notifying payroll of changes to bank details, there is scope to enhance these arrangements. In line with good practice, notification of changes to bank details should always be notified and signed by the employee, who should provide both the old and the new bank details. At present, only the new bank details are required and a manager can notify payroll of the change through a notification of change form, with no requirement for the employee to sign the request.</p> <p><b>There is a risk of fraudulent changes to employee bank details.</b></p>	<p>Payroll will ensure the Notification of Change form is signed for changes to employee personal details showing both the old and new details.</p>	<p>Head of Finance - Corporate Services April 2017</p>
<p><b>Payroll employee verification</b></p> <p>There is currently no formal verification process between employees on the STSS payroll system, Human Resource (HR) records and departments. SSTS lists all employees for each department and this is considered by the Board to be sufficient, as any differences would be identified by managers when they populate SSTS with the employee work pattern for that period. However, there is potential for fraud as a manager could create a fraudulent employee or not submit a termination form for an employee who has left and continue to claim their pay.</p> <p><b>There is a risk of invalid employees being paid through the payroll.</b></p>	<p>Finance meet with budget holders on a monthly basis to review establishments with budget holders to mitigate any differences.</p> <p>HR Medical Staffing meet with Finance at least bi-annually to reconcile medical establishment.</p> <p>It is anticipated that the introduction of eEES will mitigate any risk in this area (scheduled for 2018).</p> <p>Meantime, Finance will investigate the possibility of controls to reduce any risk.</p>	<p>Head of Finance - Corporate Services November 2017</p>
<p><b>Notification of leavers from the payroll</b></p> <p>Audit testing identified issues relating to the completeness and timeliness of the notification of leavers to the payroll department. At present there is no requirement for the employee to sign the leaver notification or to provide a letter confirming the leave date. In addition, the timeliness of notification of leavers to the payroll department could be improved.</p> <p><b>There is a risk that payments continue to be made beyond the employee's leave date which may be difficult to recover from the employee.</b></p>	<p>Finance meet with budget holders on a monthly basis to review establishments with budget holders to highlight leavers.</p> <p>HR Medical Staffing meet with Finance at least bi-annually to reconcile medical establishment.</p> <p>Payroll will issue reminders to line managers of their duties with regard to this and investigate controls to reduce any risk.</p>	<p>Head of Finance - Corporate Services November 2017</p>

Issue identified	Management response	Responsible officer and target date
<p><b>Timeliness of bank reconciliations</b></p> <p>Review of the key financial reconciliations for bank accounts and accounts receivable found that while these were being prepared, in one instance the bank reconciliation was not prepared within 4 weeks of the period due to staff sickness. The Board does not have formally set timescales within which the reconciliations should be prepared and reviewed.</p> <p><b>There is a risk that financial discrepancies are not identified and resolved timeously.</b></p>	<p>The procedures will be updated to ensure timelines for completion are entered.</p>	<p>Head of Finance - Corporate Services April 2017</p>
<p><b>Authorisation of journals</b></p> <p>Our testing of journals identified that they had all been appropriately authorised. However, we noted that the system allows journal to be prepared and authorised by the same officer. Best practice requires segregation between preparation and authorising of journals by officers.</p> <p><b>There is a risk that inaccurate or spurious journals could be input to the system.</b></p>	<p>The finance procedures do require that the journal is prepared and authorised by a different person. It is the electronic system that does not have this hard coded into it.</p> <p>Finance do not consider the potential risk arising from this to be high enough to justify an amendment to the national finance system.</p>	<p>N/A</p>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>Budget setting</b></p> <p>There is no provision in the budget for the additional costs of delivering services using agency, locums and bank staff which are more expensive than normal staff costs. We were advised that this has been excluded as the Board is successfully managing down the use of agency, locum and bank staff. The Board should keep its position on this under review to ensure that the staff costs budget reflects the true costs of providing services.</p> <p><b>There is a risk that the budget does not reflect the true cost of providing services which results in overspends against budget.</b></p>	<p>It was a very deliberate decision not to routinely add funding to budgets so the Board is not normalising what has been a very recent phenomenon. This ensures an unrelenting focus on those areas with high cost locums in place so that all other avenues (how the locums are rota-ed, continued recruitment drives, skill mix, service redesign and job planning) are explored.</p> <p>Any decision to rebase budgets would be based on a specific business case, looking at reconfiguring staffing to take account of longer term shortages. For example, we are looking at developing new roles in theatre where long standing national shortages have led to the use of high cost agency nursing.</p>	<p>N/A</p>
<p><b>Budget monitoring reports</b></p> <p>Overall there are clear arrangements in place to report the financial position to both management and the Board. However, budget monitoring reports could be enhanced by the inclusion of:</p> <ul style="list-style-type: none"> <li>more detailed explanations for variances against budget</li> <li>remedial actions required/being taken to address variances</li> </ul>	<p>The Finance department is currently reviewing the content of these reports. Finance and performance information is brought together at a divisional level. Management accounting staff will be advised that where a significant underspend is known to be having an objectively measured impact on service this should be flagged.</p>	<p>Deputy Director of Finance - Primary Care Head of Finance - Corporate Services Head of Finance - Acute November 2017</p>

Issue identified	Management response	Responsible officer and target date
<ul style="list-style-type: none"> <li>• a forecast of year end outturn</li> <li>• reference to performance information to demonstrate the link between the budget position and performance.</li> </ul> <p>This would reduce the need for obvious questioning from the users of these reports and allow for more challenge and scrutiny of the action to be taken to address variances against budget.</p> <p><b>There is a risk that the opportunity for more thorough scrutiny and challenge is missed by spending time on high-level explanations.</b></p>		
<p><b>Long term financial planning</b></p> <p>Medium to long term financial planning is an essential tool for ensuring that the Board plans its financial resources appropriately to meet its objectives. The Board is currently developing a longer term clinical strategy which will be supported by long term financial plans.</p> <p><b>There is a risk that the Board's resources are not used to best effect without strategic plans in place.</b></p>	<p>NHS Lanarkshire is currently developing its longer term clinical strategy. This will dovetail with the IJB strategic plans and will shape proposals for redeveloping the ageing facility at Monklands which in turn will form a major infrastructure element in the plan. The longer term finance plan will be driven by the service changes in the strategy.</p>	<p>N/A</p>
<p><b>Patient identifiable data</b></p> <p>Audit testing identified found one supplier invoice which contained patient identifiable data. The Board has a legal duty to ensure that patient information is kept confidential.</p> <p><b>There is a risk that the Board is in breach of its legal duty to protect the confidential information relating to patients.</b></p>	<p>This will be reviewed in the areas where this has been found.</p>	<p>Head of Finance - Corporate Services November 2017</p>

Source: Audit Scotland

12. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



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