

# NHS Tayside

Interim Audit Report 2016/17



 AUDIT SCOTLAND

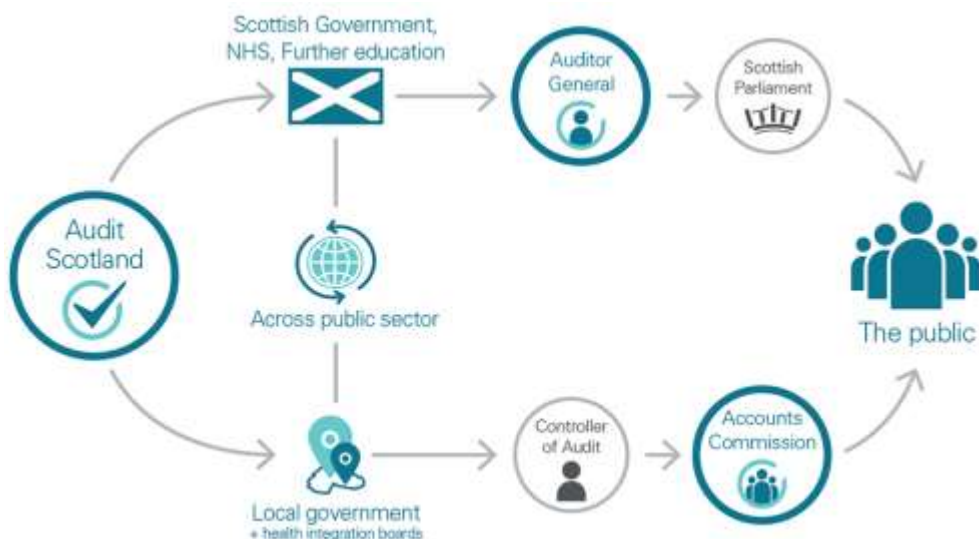
Prepared for NHS Tayside

April 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 Tayside. 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. Under the Code of Audit Practice (2016) we are also carrying out work on the wider dimension audit.

## Conclusion

4. We found that overall, the systems of internal control are generally sound. We did identify some control weaknesses from our interim audit work which we have 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, this focuses on financial management, financial sustainability, governance and transparency and value for money. Findings from this work will be reported separately in our Annual Audit Report 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 ledger access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and family health service expenditure.



Bank reconciliations



Payroll controls



IT access



Budgets

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7. In accordance with *ISA 330: the auditor's response to assessed risk*, we have designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls in the current year. Our risk based audit approach also requires us to, where possible, 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 Tayside.

## Additional follow-up work

11. Based on our audit work to date, we have concluded that overall, the systems of internal controls are generally sound. We identified some control weaknesses as set out in [Exhibit 1](#), which 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 substantively testing changes in suppliers' bank details.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified/ Risk	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>Payroll - exception reports</b>	<p>Exception reports are reviewed by a payroll officer to identify any potential errors in the payroll run. We were advised that a second spot check is undertaken by a senior payroll officer but a review of a sample of 10 exception reports showed no evidence of this spot check.</p> <p><b>There is a risk that payroll errors and frauds go undetected.</b></p>	Already actioned
	<p>All warning and errors exception reports are generated by ePayroll. They are all checked by Payroll staff at 1st Pre Payroll, 2nd Pre Payroll or payroll input close deadline and the actions taken to address the exception is noted on CALCY. This database allows checks to be done by Team Leaders to ensure all messages are checked prior to payroll input close deadline. This is an enhanced method of checking exception reports; is auditable in terms of who has undertaken the check and the reason or action taken.</p> <p>The necessary spot checks are undertaken on a random basis in terms of selecting an exception message. However Team Leaders have noted their checks as an over-write of the Payroll Officer check, rather an addition to the Payroll Officer check. A reminder of the correct procedure has been issued.</p>	

Issue identified/ Risk	Management response	Responsible officer and target date
<p><b>Family health service expenditure - reconciliations</b></p> <p>Monthly ledger reconciliations for the General Pharmaceutical Services (prescribing) stream were not completed for periods 2 and 5. We were advised that this was due to work pressures and subsequent period reconciliations would have identified any issues from previous un-reconciled periods.</p> <p><b>Although later period reconciliations should subsequently identify any issues of reconciliation, there is a risk that errors and irregularities are not detected timeously.</b></p>	<p>Reconciliations will be completed on a monthly basis for Months 2 to 12.</p>	<p>Primary Care Accountant 30 June 2017</p>
<p><b>Accounts payable - changes to supplier bank details</b></p> <p>When notified of bank detail changes, officers are required to contact the supplier directly using the existing contact details stored in the eFinancials financial ledger to confirm the change. This control guards against fraudulent changes. We tested a sample of 15 supplier bank detail changes in 2016/17 and identified that 4 showed no evidence of checking and 5 showed some evidence of checking, but had not been signed to fully evidence the check.</p> <p>We were also advised that Finance Process Manager (FPM), the tool used to upload standing data amendments to eFinancials, does not prevent changes being input and approved by the same officer. This creates a weakness in segregation of duties controls. We identified 6 of the 15 samples tested where the change had been input and approved on FPM by the same officer. We were advised that NHS Tayside have recognised this issue and in December 2016 put in place a manual process which required one officer to input the change and a second officer to approve the change. As a result we tested a further 10 cases from December 2016 and found that in all but one instance, the process had been properly applied.</p> <p><b>The absence of checks of bank account detail changes and of segregation of duties increases the risk of fraudulent payments. We are</b></p>	<p>The Team are well aware of the importance of these checks. The Accounts Payable Team have been reminded that the checks performed need to be evidenced so that a clear audit trail is available.</p> <p>NHS Tayside has now allocated separate input and authoriser roles within the Accounts Payable Team to ensure that the absence of a system validation check does not lead to a weakness in segregation of duties. Team Leaders will not input and rely on other Team Leaders to authorise those requests in the FPM system. They will only now authorise requests in FPM.</p>	<p>Already actioned</p> <p>Already actioned</p>

Issue identified/ Risk	Management response	Responsible officer and target date
<p>pleased to note that improved segregation has been put in place, although we would recommend that this process be re-emphasised to accounts payable officers (due to the one 'failure' of this control identified in our additional testing).</p>		
<h3>Wider dimension issues and risks</h3>		
<h4>Transparency - Register of Hospitality</h4>		
<p>NHS Tayside's Code of Conduct requires a Register of Hospitality to be maintained and published on the website. We could find no evidence of the register on the Board's website.</p> <p><b>NHS Tayside may be unable to demonstrate openness in the receipt of gifts and hospitality, receipt of which could be interpreted as an attempt to gain preferential treatment.</b></p>	<p>NHS Tayside will publish this information for 2017/18 onwards. The information that will be published will be as follows:</p> <ul style="list-style-type: none"> <li>• designation</li> <li>• date received</li> <li>• nature of hospitality</li> </ul>	<p>Board Secretary 31 October 2017</p>
<h4>Transparency - Public Sector Reform</h4>		
<p>The Public Services Reform (Scotland) Act 2010 requires prescribed categories of information to be made available on the board's website. The information on the board's website is not up to date for some of the prescribed categories.</p> <p><b>NHS Tayside may be unable to demonstrate that it is compliant with Public Services Reform legislation.</b></p>	<p>We will update the website as soon as practicable in line with the following timetable:</p> <ul style="list-style-type: none"> <li>• all information for prescribed categories up to 2015/16.</li> <li>• all information for prescribed categories for 2016/17.</li> </ul>	<p>Board Secretary  30 June 2017  31 October 2017</p>
<p>Source: Audit Scotland</p>		

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).

# NHS Tayside

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