

NHS Western Isles

Interim Audit Report 2016/17



 AUDIT SCOTLAND

Prepared for NHS Western Isles

May 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

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Western Isles. 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 support our audit approach for the 2016/17 financial statements.
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. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, feeder system reconciliations, payroll validation, authorisation of journals, changes to supplier bank details and IT access controls. Our testing also considered the controls in place to mitigate specific audit risk areas including budget monitoring and control, FHS reconciliations and claims for patient travel.



Bank reconciliations



Payroll controls



IT access



Budgets

4. Also, under the Code of Audit Practice, we carried out wider dimension audit work on financial planning, financial sustainability and governance and transparency, with a focus on following up the key findings from the Audit Scotland Role of Boards report.
5. 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.

Conclusion

Governance and transparency

6. We identified control weaknesses as summarised in [Exhibit 1](#) overleaf and we will carry out additional substantive testing at the year end in response.
7. We noted that each committee meeting agenda includes an evaluation section which requires members to reflect on the meeting and consider whether they were provided with sufficient information to support effective scrutiny. We believe this is an area of good practice and welcome this approach.

Financial management and sustainability

8. As part of our wider dimension audit work we considered the effectiveness of financial planning. The Local Delivery Plan recently presented to the Board identifies the budget for 2017/18 and notes the assumptions made in developing the 3 year financial plan to 2019/20. Detailed financial projections had not been completed, and at the time of our review, the 2017/18 budget was in draft format.

9. Regular updates on the financial position are presented to the NHS Board. These identify financial efficiency savings achieved and any shortfall. Board development sessions were held at which the Local Delivery Plan, including the 3 year financial planning process, was reviewed in detail by Board members and the Director of Finance.

10. Overall, appropriate financial management arrangements are in place, however, medium and long term financial planning arrangements are not yet developed.

11. As noted in our Annual Audit Plan, we considered Internal Audit's review of Budget Management. Their review concluded the following:

- a formal budgeting framework is in place and an annual budget setting process includes clearly documented timelines for budget preparation and monitoring
- budgets are set and reviewed regularly by budget holders, management accountants, the Corporate Management Team and the Board
- budgets are communicated to all relevant levels with the Director of Finance highlighting key issues in her presentation to the Board
- financial monitoring and budget setting training is provided to budget holders by the finance team
- areas noted for improvement were not considered major weaknesses and are being addressed by the finance team as appropriate.

Risks identified

12. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#).

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 Western Isles.

Exhibit 1

Key findings and action plan

Issue identified	Management response Responsible officer and target date	Additional audit procedures
Audit findings - financial statements audit assurance		
<p>Journal processing</p> <p>Audit testing of journals identified 1 journal which had a £12,500 discrepancy between the amounts posted and the supporting documentation.</p> <p>There is a risk that errors in journals posted could result in misstatements in the financial statements.</p>	<p>Further analysis shows that the journal was correct but the report taken from the system had not picked up certain lines. We have contacted the Zen help desk to report this matter and will provide an update</p> <p>Principal Accountant 15 May 2017</p>	<p>We will extend our proposed testing of year end significant journals to establish whether there are discrepancies between posted amounts and the supporting evidence.</p>
<p>User access to financial systems</p> <p>A review of user privileges for efinancials identified a small number of users who have permission within the system to authorise purchase orders that they have raised.</p> <p>There is an increased risk of fraud or inappropriate purchasing where there are weaknesses in the authorisation processes.</p>	<p>The only orders that are put through efinancials are for the Labs and Procurement. The rights of some of the finance team are obsolete as they never raise purchase orders or authorise any orders. Purchase orders are raised by administrators and are authorised by managers. We will review the access of the users and delete access where not needed and ensure that the 4 managers who should be authorising are unable to raise orders.</p> <p>Principal Accountant 30 June 2017</p>	<p>We will test a sample of orders which have been raised and authorised by the same individual. We will confirm whether the relevant goods/services were received and appropriate.</p>
Audit findings - wider dimension audit		
<p>Financial planning</p> <p>There is scope for improvement in the medium and long term financial planning. Financial projections and plans are considered for 3 years, but at a high level as part of the LDP, however a draft financial plan is only available for 1 year.</p> <p>There is a risk that the Health Board will be unable to respond to financial challenges and achieve sustainability over the medium/ long term.</p>	<p>The Board make inflationary assumptions, demographic growth assumptions and changes in services etc. for 3 years (as per LDP). The Scottish Government only guarantees the level of funding for 1 year. This makes it very difficult to plan in great detail for future years although we do make a high level assumption of what our income could be when producing the 3 year plan for the LDP.</p>	<p>No further revision to our planned audit procedures in 2016/17.</p>

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