

# NHS Tayside

Interim Management Report 2017/18



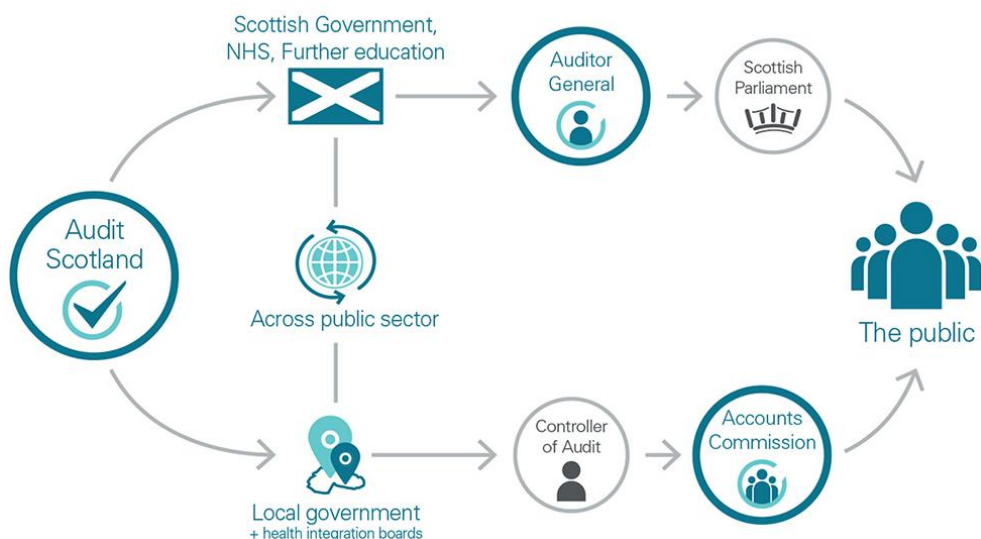
 AUDIT SCOTLAND

Prepared for NHS Tayside  
30 April 2018

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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.
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- 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.



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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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# Summary

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## Introduction

1. 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.

2. We have recently completed our interim audit work at NHS Tayside, which included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements.

3. Under the Code of Audit Practice, we are also carrying out work on the wider dimension audit which covers the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

4. Our work was completed against a backdrop of significant financial challenges within NHS Tayside, which we reported on in 2016/17 and which we continue to monitor and report.

5. In addition, it has recently been reported that NHS Tayside wrongly accounted for eHealth funding in its 2016/17 financial statements for sums which were not due to the board. Following this disclosure, the Director of Finance chose to retire. The Scottish Government commissioned a review by Grant Thornton who reported their findings on 23 March 2018. We have considered the findings of Grant Thornton when reporting our findings in this report and in determining our remaining audit work. We also note that Grant Thornton are currently carrying out a wider review of financial governance in the board.

6. In addition to the eHealth funding investigation, allegations in the media regarding the misuse of endowment monies in 2013/14 have also been made and these are currently being reviewed by the Office of the Scottish Charity Regulator (OSCR) who have set up an inquiry.

7. On 5 April 2018, the Cabinet Secretary for Health and Sport exercised her Ministerial powers of intervention and moved NHS Tayside to the highest level of escalation following which, the Chair of the NHS Tayside Board stood down. The Chief Executive is currently not at work. An interim Chairman and interim Chief Executive were appointed to the NHS Tayside Board with immediate effect.

8. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Tayside and considers the main findings from the Grant Thornton investigation. The findings from our interim audit work will determine our approach during the 2017/18 NHS Tayside financial statements audit.

## Overall conclusion

9. We identified some weaknesses in the key controls within financial systems as summarised in [Exhibit 1](#). As a result of these findings we will be carrying out additional work in some areas to enable us to conclude on our audit of the 2017/18 financial statements.

## Risks identified and management action

10. The key control and wider dimension risks identified during the interim audit are detailed in the Audit Findings section of this report. 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.

## Acknowledgements

11. 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.

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

# Audit Findings

## Interim work summary

**13.** Our 2017/18 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 finance systems access controls. Additionally, our testing covered budget monitoring, feeder system reconciliations and family health service expenditure.



**Bank reconciliations**



**Payroll controls**



**Access**



**Budgets**

**14.** In accordance with *ISA 330: the auditor's responses to assessed risks*, 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.

**15.** Also, where possible we place reliance on the work of internal audit to avoid duplication of effort. In our 2017/18 Annual Audit Plan we reported that we planned to place reliance on the work of internal audit in their review of 'financial process compliance'. Due to a re-assessment of resourcing priorities within internal audit, and a review of the risk profile of the planned work, work will now be restricted to a follow-up of last year's findings in 2017/18. Therefore, we no longer plan to place reliance on internal audit in this area and we will rely on our own work in reviewing the key controls in the main financial systems.

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

**17.** The issue identified with the eHealth funding indicates that improvements are also needed to improve the transparency of the budget monitoring process. Grant Thornton has reported on some specific areas for action to which NHS Tayside has identified improvement actions as noted at paragraph 25. We have not repeated these actions in Exhibit 1.

**18.** 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 2018. Some preliminary findings from our work to date are also included at [Exhibit 1](#).

**Exhibit 1****Key findings and action plan 2017/18**

<b>Issue identified</b>	<b>Management response</b>	<b>Responsible officer and target date</b>
<b>Audit findings</b>		
<p><b>Accounts payable – changes to supplier bank details</b></p> <p>In 2016/17 we reported that procedures for authorising changes to supplier bank details and the evidencing of checks performed were not being followed. Changes were not always being checked with the supplier before the changes were made.</p> <p>Management reminded staff that these processes should be followed but our 2017/18 testing has identified similar issues. Out of 20 bank detail changes processed we identified four samples where the expected control was not observed:</p> <ul style="list-style-type: none"> <li>• for three samples there was not sufficient evidence of check</li> <li>• for one sample there was evidence of check but the date of the check was after the change had been processed.</li> </ul> <p><b>The absence of evidenced independent checks of bank account detail changes increases the risk of fraudulent payments.</b></p>	<p>A review of our working practices has been undertaken.</p> <p>A team training event is scheduled.</p> <p>Additional assurance measures have been implemented. These include review by a Financial Accountant of a system generated report of bank account changes to ensure that documentation is appropriately signed off to evidence the operation of the checks undertaken.</p>	<p>Head of Finance – Governance and Assurance</p> <p>May 2018</p>
<p><b>Ledger: journals – segregation of duties</b></p> <p>Journals are not authorised by an independent officer. All Financial and Management Accountants can upload journals to the ledger without a second officer check. Best practice requires segregation between preparation and authorising of journals by officers.</p> <p><b>There is a risk that inaccurate or fraudulent journals could be input to the system.</b></p>	<p>Whilst there is no second officer signature on journals, there are a number of compensating controls that form part of our month end review process. Several layers of review are in place as noted below.</p> <p>Management accountants responsible for each operational service undertake a detailed review of the monthly results and relevant accounting entries.</p> <p>Senior management accountants undertake a further review of the month end position prior to final review by the Finance Managers.</p> <p>The Deputy Director of Finance as part of Board and Senior Team reporting meets with Finance Managers to seek assurance on month end process and to review the final results.</p>	<p>Complete</p> <p>Deputy Director of Finance</p>
<p><b>Payroll - validation of employees</b></p>	<p>The current suite of national workforce systems e.g. SSTS, ePayroll and SWISS,</p>	<p>Head of Payroll Services</p>

Issue identified	Management response	Responsible officer and target date
<p>There is currently no independent formal verification process to confirm the existence of employees listed on ePayroll. 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 payments being made to individuals who are not genuine employees of the board.</b></p>	<p>has shared data tables and automatic interfaces of employee data, therefore they do not lend themselves to an independent verification process. Authorisers in SSTS are encouraged to confirm their rosters on a weekly basis; this would in effect be a verification process to confirm the existence of the employee. The SSTS team regularly undertake a check of unconfirmed rosters and contact the authoriser accordingly. SSTS is not configured to reject any roster that is not confirmed, and in any event, the payment of contracted hours/salary is processed by ePayroll as opposed to SSTS. SSTS authorisers will be reminded to confirm rosters as this is deemed as system best practice.</p> <p>The risk of a manager creating a fraudulent employee is negated as all Staff Engagement Forms from April 2018 are now authorised by HR.</p> <p>There is also an opportunity for budget managers to verify department information against payroll records. Each month the HR team run reports from ePayroll, which are then used by Finance to capture employee and whole time equivalent information by directorate/staff category. This information is used to produce a staff report which accompanies budget statement sent to Managers.</p> <p>The issue of an employee not being terminated from ePayroll timeously will never be completely eradicated as the current process requires an individual, be it the line manager or HR, to do something i.e. complete a Termination Form. Looking to the future, the eESS system will still require an individual to activate a termination in the system, and that record change would be part of the eESS to ePayroll interface. Managers will be reminded of the need to complete a Notification of Termination Form timeously.</p>	<p>June 2018</p>

### Audit dimensions - issues and risks

<p><b>Board Register of Interests</b></p> <p>The register of board members' interests is not complete. Comparison of the register with Companies House records showed interests in the board members' records which were not identified in the register.</p> <p>We also noted that the register does not include the Strategic Director of Finance or the Chief Officers of the</p>	<p>Interests are recorded as provided by Board Members.</p> <p>New Non Executive Board Members are issued with Section B, Members Code of Conduct. Yearly reminders are issued and a statement is included on Board and Committee agendas re registering interests.</p> <p>Non Executive Board Members also received Vital Signs communication.</p>	<p>Board Secretary</p> <p>June 2018</p>
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Issue identified	Management response	Responsible officer and target date
<p>three Integration Joint Boards. Whilst not NHS Tayside Board members, these post-holders are in a position to influence the decision making of NHS Tayside as they are members of its executive leadership team and are regularly in attendance at Board meetings. In our opinion therefore, to promote transparency, it would be appropriate to include them in the register.</p> <p><b>There is a risk that decisions are not made in an open and transparent manner if all relevant declarations of interest are not disclosed. There is also a risk that the related party disclosures in the Annual Report and Accounts are incomplete.</b></p>	<p>Board Members Interests are recorded in the Board Register of Interests and those who sit in attendance at the Board table.</p> <p>IJB Officers do not sit at the Board table and no other members of the Executive Leadership Team have their interests recorded in the Board Register of Interests.</p> <p>Executive Leadership Team can record any interests via the Staff Register of Interests.</p> <p>The Strategic Director of Finance will now be included in the Board Register of Interests.</p> <p>Following receipt of information from audit colleagues we have reviewed the omissions from the register of board members interests identified through audit testing to ensure the related party transactions disclosures in the 2017/18 accounts are not affected by the omissions identified.</p>	
<p><b>Staff Register of Interests 2017/18</b></p> <p>The staff register of interest is maintained on 'Staffnet' (the Board's intranet). Our review of the register found that the register is not complete and is not up to date. We also found the register very difficult to locate within 'Staffnet' with no obvious signposting.</p> <p><b>There is a risk that management decisions are not made in an open and transparent manner if all relevant declarations of interest are not disclosed.</b></p>	<p>Staff are reminded of their obligations at least annually via a Vital Signs communication on the Code of Corporate Governance and their responsibilities and in particular Section C, Standards of Business Conduct for NHS Staff.</p> <p>The ability to add interests online was developed to allow staff at any point to record their interest.</p> <p>This will be strengthened to require line managers to discuss with staff at their annual appraisal.</p>	<p>Board Secretary June 2018</p>
<p><b>Reliance on the work of internal audit</b></p> <p>During 2017/18 we note that there has been slippage in the delivery of the internal audit plan. The mid-year report has been issued but internal audit resources have been redirected towards a number of emerging risks and working with board staff to respond to them. This, together with staff shortages within internal audit and pressures on management and staff to engage with and respond to internal audit queries, has delayed some internal audit work.</p> <p><b>There is a risk that slippage in the internal audit plan may impinge on management's ability to gain key assurances over their control environment. This could impact on the signing of the Annual</b></p>	<p>Internal Audit have risked assessed their remaining audit work and are comfortable that the work that will not be concluded by the end of June 2018 has no impact on their assurances on the board's control environment.</p> <p>The new management team has accepted that management responses to internal audit reports and assignment plans has not been timely and have taken immediate action to remedy this.</p>	<p>Chief Internal Auditor Complete</p> <p>Strategic Director of Finance Immediate</p>

Issue identified	Management response	Responsible officer and target date
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**Governance Statement within the financial statements.**

Source: Audit Scotland

**19.** During our interim audit work, we were also advised of two areas where control improvements are planned for 2018/19 in regard to payroll system access:

- the payroll section is planning to introduce a formal system access request form. This is currently actioned through an email from a Finance or Human Resource department manager.
- the ePayroll user list is reviewed annually to confirm the validity of user access, including whether access should be removed. Payroll is considering undertaking this exercise on a quarterly basis.

We would consider these improvements to provide more effective control.

**eHealth Funding**

**20.** Early in March 2018, Scottish Government staff identified that NHS Tayside was holding money intended to fund eHealth in NHS boards. This came to light when the Scottish Government finance team were asked to process an allocation adjustment relating to the eHealth national programme budget. Following the disclosure, NHS Tayside's Director of Finance chose to retire.

**21.** The Scottish Government commissioned a review by Grant Thornton which concluded with a report '*An independent review by Grant Thornton UK LLP on eHealth Funding between eHealth, NHS National Services Scotland and NHS Tayside between 2012 and 2018*' issued on 23 March 2018.

**22.** The Grant Thornton report highlighted that an arrangement had been in place since 2012/13 to route eHealth money from the Scottish Government through NHS National Services Scotland then on to the NHS boards. Since that time, underspent funds on the eHealth programme were passed to NHS Tayside and were used to fund its annual expenditure. It was then returned to the Scottish Government as funding allocation credits the following year.

**23.** For 2016/17 a sum of £2.538 million was received by NHS Tayside for NHS National Services Scotland eHealth underspends. The net sum of £1.891 million (i.e. net of the 2015/16 repayment of £0.647 million) was incorrectly included in the 2016/17 NHS Tayside financial statements.

**24.** The net mis-statement of £1.891 million is below the 2016/17 audit materiality level of £10.500 million. As a result, the true and fair audit opinion for 2016/17 remains relevant and appropriate and no prior year adjustment is required in the 2017/18 financial statements.

**25.** Grant Thornton identified five areas where action should be taken by NHS Tayside, all of which have been responded to by management. The steps taken by management to improve controls over funding include:

- the financial forecasts for 2017/18 have been rebased to exclude £5.3 million of eHealth funding allocations that had been previously made or indicated would be made available

- a change to the Standing Financial Instructions to ensure that any alterations to the Revenue Resource Limit will be signed off by the Director of Finance and the Chief Executive
- the format of the financial reports has been changed to improve understanding and transparency regarding the financial position including detail of, and the extent to which, non-recurring measures or Board reserves are being utilised
- increased transparency in reporting the extent deferred expenditure is being utilised to manage the financial position.

**26.** Interim arrangements have been put in place to manage the board's financial arrangements following the departure of the Director of Finance. These arrangements have involved the Strategic Director of Finance (the NHS Grampian Director of Finance), who was already providing external support to the board, stepping in to take on an extended senior finance role at NHS Tayside. The day to day operational finance role was in turn delegated to the Associate Director - Financial Planning & Operational Services.

**27.** We will monitor the impact of the steps taken by NHS Tayside and report on the board's financial outturn in our 2017/18 Annual Audit Report.

**28.** Grant Thornton are also currently carrying out a further review on NHS Tayside's financial governance arrangements, which we will consider when the results are published.

#### **Tayside NHS Board Endowment Fund**

**29.** In March 2018 allegations were made in the media about the misuse of Tayside Endowment Fund monies by NHS Tayside (with temporary suspension of the fund's policy and procedures to facilitate approval of retrospective expenditure proposals). This allegation relates to the 2013/14 financial year.

**30.** The Tayside NHS Board Endowment Fund 2013/14 accounts state that *'Trustees agreed to fund £2.7 million retrospectively on projects that Tayside Health Board had commenced.'* The Endowment Fund Board minutes of 24 January 2014 document the Board's agreement to *'a temporary variation in the Endowment Fund's Policy and Procedures to allow retrospective applications to be considered.'*

**31.** On 5 April 2018 it was announced that OSCR are conducting a formal inquiry into the specific circumstances of the use of funds by Tayside NHS Board Endowment Fund. Grant Thornton are also currently carrying out a review of NHS Tayside's use of the endowment funds in 2013/14. We will consider the results of both pieces of work relating to NHS Tayside when they are published.

**32.** On 12 April 2018 we were informed that NHS Tayside's Board had met to discuss a proposal for a repayment to be made to the endowment fund to cover funds used by NHS Tayside in 2013/14 and 2014/15. The plan is for Scottish Government funding to be provided to cover this repayment.

**33.** We have been asked to provide an audit view on this proposed 2018/19 transaction. To enable us to provide an informed response, we have requested evidence of the Board's consideration of its powers to make the repayment. We have requested the following information which remains outstanding:

- a copy of the board papers in which this proposal was discussed
- details of the specific statutory references that the board has used to support the transfer of board funds to the endowment fund.

The board is asked to provide this information to audit as soon as possible.

## Re-assessment of audit approach work

**34.** We will continue to monitor and report on the financial position of the board. We will also continue to assess the results of ongoing investigations that are relevant to the board's activities. Where this indicates that our approach should change we will review it accordingly.

**35.** We identified some specific 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 2017/18 financial statements. Specifically, this will focus on substantively testing changes in suppliers' bank details, journal entries and validation of employees.

**36.** As part of our audit we review the payments arising from the departure of senior officers, to consider whether due process was followed in accordance with the board's procedures and for evidence that any payments made represent value for money. In 2017/18, this work will include any payments relating to the retirement of the Director of Finance in March 2018.

**37.** In our Annual Audit Plan issued on 6 December 2017 we set a planning materiality level of £10.516 million for the audit of the 2017/18 financial statements.

**38.** We have now re-assessed our materiality levels and whilst the overall materiality level remains the same, we have reduced our performance materiality from 50% to 40% of overall materiality i.e. £4.206 million. This lowers the trigger level above which further audit procedures will be considered if we identify any errors as the audit progresses.

**39.** We will continue to keep our audit approach and testing strategy under review as the 2017/18 audit progresses.

# NHS Tayside

## Interim Management Report 2017/18

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