

NHS Western Isles

Management Report 2017/18



 AUDIT SCOTLAND

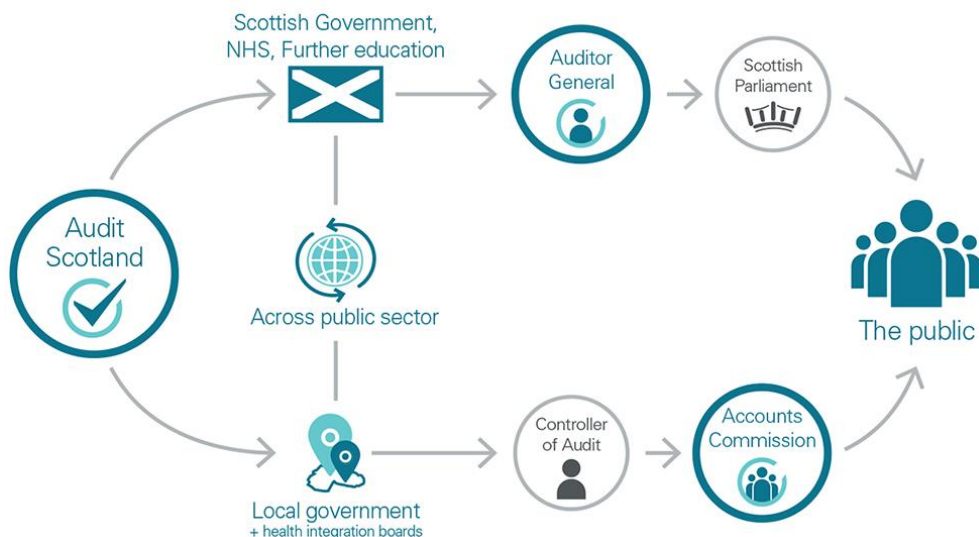
Prepared for NHS Western Isles

May 2018

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 determine our approach during the 2017/18 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. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management and financial sustainability. The results of our work in these areas will be reported in our Annual Audit Report.

Work summary

4. Our 2017/18 testing covered key controls in a number of areas including bank reconciliations, payment of creditors, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we reviewed feeder reconciliation systems and the key controls in place for the new pharmacy stock system (JAC) as well as considering the Board's participation in the National Fraud Initiative.
5. We also reviewed the work carried out by finance to address the areas highlighted in our 2016/17 Annual Audit Report in relation to the accuracy of the Non Current Asset disclosures in the financial statements.



Bank reconciliations



Payroll controls



IT access



Stock

6. 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.

- Internal audit services are provided by Scott Moncrieff. This year we placed reliance on their Financial Systems Healthcheck work. We will consider the review of IT security when available. In relation to our wider dimension audit responsibilities we placed reliance on the review of Delayed Discharges.

National Fraud Initiative

- The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Recommended matches should be investigated by participating public bodies. The latest position for NHS Western Isles is summarised in [Exhibit 1](#).

Exhibit 1

National Fraud Initiative

Total number of matches



2145

Completed/closed investigations



60

Total number of recommended matches



73

Completed/closed recommended matches



60

- Overall our review of the Board's NFI processes found that good progress had been made with the 2016/17 NFI exercise in terms of checking almost all of the recommended matches.
- The NFI secure website lists a total of 2,145 data matches. From this total, 73 are classed as 'recommended' matches (high risk) for investigation. Of the 73 recommended matches, 60 were reviewed. The remaining 13 'open' matches relate to prior year matches, where there was no change to the outcome and where no further action was required. All current year matches were investigated; no frauds or errors were identified.
- Updates on NFI activity are reported regularly by the Fraud Liaison Officer to the Healthcare Governance and Audit Committee.

Review of completed actions from 2016/17 Annual Audit Report

- A detailed review was undertaken of the actions completed by NHS Western Isles to address the points raised in our 2016/17 Annual Audit Report on Non-Current Assets.
- Review of the consistency of values in the Fixed Asset Register – Action Point 2.** In 2016/17, we identified differences with the values identified in the financial statements and the underlying fixed asset register, although in total intangible and property, plant and equipment assets were correctly stated. A detailed review of the fixed asset register was carried out by the Principal

Accountant Technical, to ensure asset classifications are correct and disclosure in the financial statements is accurate.

- **Depreciation calculation on assets – Action Point 3.** Depreciation was reviewed and recalculated by the Principal Accountant Technical for all assets in the register. Information provided to audit for verification was consistent with the Board's depreciation methodology and accurately calculated.
- **Asset additions and valuations – Action Point 4.** In 2016/17, we identified a number of asset additions within the Fixed Asset Register which were added on top of the valuer's valuation of those buildings at 31 March 2017. To address this issue all assets were reviewed by the Principal Accountant Technical, and values re-assessed from the date of the last valuation. The review also removed any assets which are no longer held by the Board.
- **Revaluation Reserve Adjustments – Action Point 6.** In 2016/17 we recommended that the revaluation reserve adjustments and policy are reviewed during 2017/18. As set out above, values were re-assessed from the date of the last valuation. Where an asset was not revalued in year, indices were applied in accordance with the Accounting Policy in this area. The revaluation reserve adjustments have been calculated for the first time and agreed for inclusion in the 2017/18 financial statements. The adjustments have resulted in an overall £114k credit to the Revaluation Reserve.

Conclusion

13. Significant work has been undertaken by staff to address issues identified in previous years with capital accounting and no significant issues were identified from our interim audit work. This enables us to proceed with our planned audit approach for the 2017/18 financial statements.
14. While we have not identified areas for improvement, this does not necessarily mean that no weaknesses exist and it is the responsibility of management to decide on the extent of the internal control systems appropriate to NHS Western Isles.
15. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.
16. 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.

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