

Stuart Lyall  
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15 June 2020

Dear Stuart

### **NHS Tayside - Review of internal controls in financial systems 2019/20**

**1.** Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that the board:

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

**2.** Our interim work is used to inform our approach to the audit of the annual accounts. Interim audit work includes controls testing, income and expenditure verification and wider dimension audit work. We set out our programme of work in the annual audit plan submitted to the Audit and Risk Committee of 23 January 2020. Our interim audit work was interrupted by the outbreak of COVID-19 and the consequent suppression measures put in place by the UK and Scottish governments. This has meant that we have been unable to complete all of our testing or our wider dimension work at the interim stage. We are, where possible, completing programmed work alongside our annual accounts audit work or adjusting our audit approach as necessary.

**3.** Our annual audit plan indicated that we would submit a management report for the consideration of management and members at the May meeting of the Audit and Risk Committee. As the board has been operating under modified governance arrangements (the Audit and Risk Committee did not meet in May 2020) and as the scope of our work has been reduced, we have elected to provide the shorter version of our interim reporting options, a management letter, concluding on work completed to date, which can be considered at the next meeting of the Audit and Risk Committee in June 2020.

**4.** Weaknesses identified represent those that have come to our attention during the audit work completed to date and are therefore not necessarily all of the weaknesses which may exist. It is the responsibility of management to decide on the nature and extent of the internal control system appropriate to the board.

### **Conclusions**

**5.** We are reporting solely on those elements of interim work completed to date. On the basis of this audit work, we concluded that system controls are operating as specified and that there are no issues which would impact on our audit approach. One minor area has been identified however, where a control could be strengthened.

**6.** We also report on the board's participation in the National Fraud Initiative (NFI) and have concluded that the board is proactive in investigating matches.

## System coverage

7. The key systems that were, or were to be, tested at the interim audit stage were as follows:

- General ledger
- Payroll
- Cash and banking
- Budgetary control
- Accounts receivable
- Accounts payable
- Family Health Services

## Key findings

### Accounts payable

8. 'Payment on Behalf' (POB) invoices are initially paid by NHS NSS on behalf of all NHS Boards and are later reimbursed by the boards. Schedules for NHS Tayside's POB invoices, provided by NHS NSS, are annotated by an accountant, prior to upload to the ledger, to ensure the figures are coded correctly. Our testing identified no issues with this control, however it could be strengthened if the schedules were signed off and dated to evidence the checks to ensure they had been correctly entered into the ledger.

### Management response

Month end procedures have now been updated, the POB schedule will now be signed and dated following input checks by Financial Accounting Team Leader, or Financial Accountant in their absence.

Action date: Already actioned.

### National fraud initiative

9. The NFI in Scotland brings together data from health boards, local government and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

10. Participating bodies received matches for investigation in January 2019. All recommended matches plus any further matches based on findings and the risk of error or fraud should have been investigated by 30 September 2019 and the results recorded on the NFI system.

11. A large number of cases had been reviewed offline and were later closed off on the NFI system. In closing these, the cases were recorded as 'closed - not selected for investigation' rather than 'closed - no issue'. These cases have now been corrected and we can confirm that the board has investigated around 99% of the high risk matches and updated the NFI system as required.

12. Going forward, the board should complete investigations online and ensure that each case has been concluded on the NFI system correctly.

### Management response

An error was made in applying a new code to a large number of data matches found not to be fraudulent within the on-line application which was corrected and measures were implemented to prevent recurrence. However, a high level of compliance was achieved providing assurance to the Board.

Action date: Already actioned.

## Acknowledgement

**13.** The contents of this letter 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.

Yours sincerely

Bruce Crosbie (Senior Audit Manager)