NHS National Services Scotland

Management Report 2019/20

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS National Services Scotland ('NHS NSS' or the 'Board'). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements; and pre-year end testing of income and expenditure transactions. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the systems of internal control put in place by management. We seek to gain assurance that NHS NSS:

- 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 NHS NSS's engagement and progress with the National Fraud Initiative. Further wider dimension audit work on equalities, performance management arrangements for digital services and on the risk of fraud in procurement will be reported in our Annual Audit Report in June 2020.

Conclusion

4. No significant key control weaknesses were identified from our interim audit work. This enables us to take planned assurance for our audit of the 2019/20 financial statements.

5. In terms of our wider dimension audit work we concluded that NHS NSS continues to engage positively with the National Fraud Initiative and that appropriate risk-based arrangements are in place for NFI data match investigations.

Work summary

6. Our 2019/20 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 IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud.

7. Exhibit 1 summarises the key systems and the specific controls that have been tested during our interim audit.

Exhibit 1
Internal controls work summary

Key system	Key controls tested
Payroll	Payroll validation
	Exception reporting
	Interface between HR and Payroll systems
	Review of key payroll processes (new starters/ leavers/ payroll amendments)
General Ledger	IT access controls
	Journal authorisation
	Changes to standing data
	Feeder system reconciliations
	Bank reconciliations
	Budget monitoring of revenue expenditure
Trade Payables	IT access controls
	Changes to supplier bank details
	Authorisation of purchase orders and invoices
Trade Receivables	IT access controls
	Authorisation of debtors requests and invoices
Inventories	IT access controls
	Authorisation of purchase orders and invoices
	Authorisation of write-offs

8. 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.

9. We have carried out early substantive testing on income and expenditure transactions for the first nine months of the financial year. For a small number of transactions within the income and non-payroll expenditure samples we are waiting for supporting documentation or seeking clarification on the supporting documentation provided. We expect that these will be resolved before or during our final accounts audit work. No errors have been identified so far in our sample testing.

National Fraud Initiative (NFI)
10. The National Fraud Initiative in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

11. Each NFI exercise lasts for two years and we report in both years on NHS NSS's engagement with NFI and progress of its data match investigations. All high risk matches were reviewed during 2018/19 (the first year of the current exercise) with 747 matches processed out of a total of 6,312 matches (6,281 creditors and 31 payroll

matches). All payroll matches were reviewed, including those with nil risks, and all 75% risk scored creditors matches were investigated; these are the equivalent of "recommended" matches in previous exercises. This indicates an appropriate risk-based approach to investigation.

12. We recommended last year that NHS NSS should use the secure NFI website to record the outcomes of "offline" review work, to ensure that the results are captured for the national reporting of NFI outcomes. This has been actioned: the NFI website has been updated to record the outcomes of all work carried out on payroll and creditors matches. There was no fraud or error identified in respect of the reviewed matches. NHS NSS continues to engage positively with the NFI exercise and the outcome of the current NFI exercise has been reported to the Audit and Risk Committee as part of the quarterly fraud updates.

Risks identified

13. The key control and wider dimension risks identified during the interim audit are detailed in Exhibit . These findings will inform our approach to the financial statements audit where relevant.

14. 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 NSS.

Exhibit 2
Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
Segregation of duties The eFinancials ledger system does not enforce segregation of duties over journal authorisation: user access allows staff to both raise and authorise their own journals. We have previously reported this point: at that time, management chose to accept the reported risk, as budget holder review of finance reports was expected to identify mis-posted journals. **There remains a risk that journals could be posted to manipulate the financial position.**	User access is restricted to specific roles within the efinancials system. The financial position is robustly challenged by senior finance staff and reviewed by budgets holders on a monthly basis. We will review the roles and responsibilities of finance staff as we implement our transformation programme.	Associate Director of Finance Operations September 2020

Source: Audit Scotland

15. 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.

16. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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