

NHS GRAMPIAN

Interim Report 2017/18



 AUDIT SCOTLAND

Prepared for NHS GRAMPIAN

20 March 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 our interim audit work at NHS Grampian. This work included confirming our understanding of key controls in major financial systems, reviewing key governance documents such as standing orders and standing financial instructions, and a review of the results from the National Fraud Initiative (NFI) data matching exercise. We also followed up the risks highlighted in our 2016/17 Interim Report which was considered by the Audit Committee in June 2017.
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. 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

4. No significant weaknesses were identified from our interim audit work but we found areas for improvement as summarised in [Exhibit 1](#).
5. [Exhibit 2](#) provides an update on the progress management has taken to address the risks we highlighted in our 2016/17 Interim report.
6. The board's review of NFI data matches identified 16 errors with a value of £79,960. All related to duplicate accounts payable invoices. There were no identified instances of fraud and where appropriate, monies have been recovered.

Work summary

7. 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 enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had previously been identified. In line with our Annual Audit Plan, we are also placing reliance on the work of internal audit, where appropriate, to avoid duplication of effort.

8. Our review of key financial systems this year included the following:

- Through inspection, observation and discussion with staff, confirmation that there were no significant changes in the key controls identified the previous year. We consider the following as key controls: reconciliation of feeder systems to the general ledger, payroll validation and exception reporting, budgetary controls, authorisation of journals, change of supplier bank details and IT access controls.



Reconciliations



Payroll controls



Budgets



IT access

- Review of the operation and identification of key controls within two feeder systems namely, Healthcare locum (HCL) agency locum procurement system and National Distribution Centre (NDC) stocks systems. Both systems process approximately £20m of transactions each year which we regard as material amounts in the context of the board's financial statements. We therefore deemed it important to have a better understanding of the operation of the respective systems.

Risks identified

9. Our findings from our interim work are summarised in [Exhibit 1](#).
10. 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 Grampian.

Exhibit 1

Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<p>1. Operational scheme of delegation</p> <p>Section 24.2 (p.87) of the board's Standing Financial Instructions (SFIs) state that the Director of Finance should:</p> <p>"review amendments to the Operational Scheme of Delegation on a quarterly basis"; and</p> <p>"nominate an officer to be responsible for maintaining the Operational Scheme of Delegation and keeping specimen signatures up to date."</p> <p>The quarterly review is not taking place as specified in SFIs but instead</p>	<p>We will update the SFIs to reflect the actual review being done.</p>	<p>Assistant Director of Finance</p> <p>To be incorporated in revised SFI's for consideration by the Audit Committee on 20 March 2018 and by the NHS Grampian Board on 5 April 2018.</p>

Issue identified	Management response	Responsible officer and target date
<p>the Assistant Director of Finance reviews each amendment made.</p> <p>Risk: There is a risk that SFIs are unclear and misleading.</p> <p>Recommendation: Management should review existing practices and update SFIs as appropriate.</p>		
<p>2. Disputed invoices</p> <p>As at 30 January 2018, there were 2,849 disputed supplier invoices totalling £2.8m. There are a range of reasons for invoices being in dispute including goods not receipted, price variance, quantity issues, etc. An Invoice Register of disputed invoices is automatically sent to each relevant department/ward on a weekly basis for investigation and appropriate action to enable Finance to make payment. Finance staff also meet with departments as required. While there is a target of one week, at present the response rate is only averaging 25%.</p> <p>Risk: Payment of invoices is delayed and there is increased risk of fraud or irregularities.</p> <p>Recommendation: The board undertake a review to determine the reasons for disputed invoices with a view to minimising recurring issues.</p>	<p>The reasons for disputed invoices are generally well known and understood within the organisation. The most frequent issues relate to discrepancies regarding pricing, quantity and deliveries to locations other than those stipulated on the order. From January 2018 the acting Head of Financial Services, Accounts Payable Manager and procurement colleagues meet monthly to review the underlying reasons for issues affecting the purchase to pay process and to determine the action necessary to fix these issues at source.</p> <p>Quarterly this group will be joined by the Head of Procurement and Assistant Director of Finance and address any issues requiring escalation, in particular regarding available resources and supplier management.</p> <p>On 7 March 2018, an interactive workshop was arranged, led by the acting Head of Financial Services, supported by the Accounts Payable Manager and procurement colleagues. This was attended by some 50 staff involved in the ordering and receipting of goods and services. This workshop sought to address any specific training issues and to highlight any collaborative action that can improve the process. It was agreed that this will become an annual event.</p>	<p>Assistant Director of Finance</p> <p>Actions in place and ongoing</p>
<p>3. “Phoned in” orders</p> <p>There are occasions when staff phone suppliers to add items or quantities to an existing order without amending the purchase order properly or raising a new order. This results in an invoice which cannot be paid because it cannot be matched to an existing purchase order.</p> <p>This practice is not in accordance with the board’s SFIs which state in par 13.20 that “All external commitments for the supply of products or services with suppliers and contractors must be</p>	<p>Placing or amending orders by telephone should only occur where, it is not practical to generate a separate purchase order for each transaction and where this facility is specified in the contractual agreement for supply of the goods or services.</p> <p>The SFIs will be updated to clarify this requirement.</p>	<p>Assistant Director of Finance</p> <p>To be incorporated in revised SFI’s for consideration by the Audit Committee on 20 March 2018 and by the NHS Grampian Board on 5 April 2018</p>

Issue identified	Management response	Responsible officer and target date
<p>made through the issue of a validated purchase order or call off against contract....At the time of writing there remains a legal obligation on NHS Grampian to settle all invoices where deliveries are made by suppliers in good faith and where no supplier agreement exists not to accept orders other than in the official form. The no order no payment principle cannot therefore be included in these SFIs as a mandatory requirement regarding settlement of invoices. The requirement to ensure that all orders for goods and services are in the official form is however mandatory and all NHS Grampian staff with delegated authority for procurement of goods/services must comply with this requirement."</p> <p>Par 13.35 also states that "No goods, services or works other than minor purchases from petty cash, will be ordered except on an official electronic order, which has been duly approved through the workflow set up for budget and procurement approvals."</p> <p>Risk: Goods and services are not properly authorised which may lead to fraud or irregularities.</p> <p>Recommendation: The practice of 'adding to orders' should be reviewed with a view to minimising its occurrence.</p>	<p>All staff will be reminded of the need to comply with this requirement.</p>	<p>30 April 2018</p>

4. Data capture software

The Finance department use software to scan invoices which eliminates the need for manual input. However, staff experience a number of weaknesses with the software which require significant manual intervention to ensure accuracy of processing. For example, poor character recognition such as reading the number "1" as the letter "i" and zero as the letter "o", putting information in the wrong fields such as bank details to supplier number field; and pages sticking together resulting in missing pages from an invoice.

The board should consider doing a cost benefit analysis to assess if the software is fit for purpose and delivering the desired efficiencies or if alternative options should be explored.

The integrated financial ledger package (eFinancials) and associated feeder systems such as the "DB Capture" OCR scanning system, eInvoicing and the email receipt of PDF format invoices were specified through the NHS Scotland National Shared Services programme and prescribed for use by all NHS Scotland Boards.

From inception, finance teams have recognised that the efficiency benefits would accrue from the ability to include access to invoice images on regular financial reports to budget holders and to support more accurate variance analysis, rather than through reduced processing time.

The rate of first time matching using OCR has gradually improved since inception and continues to be an area of

Assistant Director of Finance
Ongoing

Issue identified	Management response	Responsible officer and target date
<p>Risk: With significant manual intervention, the software may not be delivering good value for money and may lead to duplicate payment of invoices.</p> <p>Recommendation: Determine the scale of software issues and consider options for improvement.</p>	<p>focus within the Accounts Payable (AP) team but operation of the scanning technology has been and continues to be labour intensive for AP staff.</p> <p>Processing times for straightforward manual input of invoices remain considerably faster than when scanning technology is used but this is weighed against the overall organisational saving in management time through the use of electronic images to support management reporting and the process of query resolution.</p> <p>NHS Grampian participate in the national accounts payable focus group that drives the development path for this technology. These issues will be raised again to ensure that all possible action continues to be taken.</p>	

Source: Audit Scotland

11. We also summarise below progress with management actions agreed in respect of our 2016/17 audit findings.

Exhibit 2

Progress on 2016/17 Interim Report findings

Issue identified	Management response/ responsible officer and target date	Latest status
Audit findings		
<p>1. Standing Orders</p> <p>The most recent version of the Standing orders was not available on the board's website.</p> <p>Constitutions for board committees were not available on the website and it was noted that the Patient Focus and Public Involvement Committee had changed its name.</p>	<p>The link to the most recent version of the standing orders on the public website will be updated.</p> <p>Assistant Board Secretary</p> <p>30 June 2017</p> <p>Publication of the constitution of each Sub Committee on the Board public website will be considered.</p> <p>Board Secretary</p> <p>September 2017</p>	<p>Latest version of Standing Orders and current constitutions for board committees are now available on the board's website.</p>

Issue identified	Management response/ responsible officer and target date	Latest status
<p>2. Review of policies</p> <p>A number of governance policies were overdue for review.</p>	<p>The Director of Workforce has reviewed existing arrangements and a progress report will be submitted for consideration at the June 2017 Audit Committee.</p> <p>Director of Workforce 30 June 2017</p>	<p>Existing arrangements were reviewed and reported to the June 2017 Audit Committee meeting.</p>
<p>3. Pharmacy stock</p> <p>No audit trail was maintained to evidence changes made to the pharmacy stock system as a result of the annual stock take. It was also noted that the stock take was undertaken by two members of pharmacy staff.</p>	<p>Procedures will be updated to ensure evidence of any changes to stock balances arising from periodic stock counts is retained with the associated stock sheets.</p> <p>Consideration will be given to involving an independent member of staff in the team undertaking the stock count.</p> <p>Principal Pharmacy Technician 31 March 2018</p>	<p>Stock procedures require retention of evidence to support any amendments in stock values in the JAC pharmacy system.</p> <p>The Assistant Director of Finance will attend the 2017/18 stock take on 23/24 March 2018 and determine the practicality and need to involve an independent member of staff in the count.</p>
<p>4. Risk Register</p> <p>The risks contained in the Strategic Risk Register were last formally reviewed in 2015.</p>	<p>The Performance Governance Committee will formally schedule and record an annual review of the corporate risk register.</p> <p>Director of Finance/Director of Workforce December 2017</p>	<p>Review is on-going. A revised Strategic Risk Register is scheduled to be considered by the Performance Governance Committee in March 2018.</p>
<p>5. Register of interests</p> <p>There was insufficient evidence to demonstrate that the register of board members interests had been updated in the year. There is also scope to declare IJB membership within the register of board members' interests.</p> <p>We also noted that registers required under the provisions of NHS Circular HDL (2003) 62 are not in place.</p>	<p>The on line register of Board members interests will be updated to include the date of last review.</p> <p>The Standards Commission for Scotland will be consulted to clarify the requirement for disclosure of IJB membership.</p> <p>Assistant Board Secretary 30 September 2017</p> <p>The most recent Standing Financial Instructions approved by the Board in April 2017 were updated to include a definition of conflict of interest and to include a more detailed explanation on</p>	<p>Board members' interests including disclosure of IJB membership were updated recently and are available on the board's website.</p> <p>Standing Financial Instructions were updated to clarify requirements.</p>

Issue identified	Management response/ responsible officer and target date	Latest status
	<p>how to declare an interest in the Corporate Register of Interests, Hospitality and Gifts and the circumstances when this is necessary.</p> <p>Assistant Director of Finance</p> <p>April 2017</p> <p>In addition the Audit Committee approved, at their March 2017 meeting a series of actions aimed at improving the Board's processes around declaration of interests, gifts and hospitality.</p> <p>These actions included introduction of a standard declaration form to be used for all entries to the register, establishment of an overview group to review content, development of the electronic register to support management reporting and audit trail functionality and the development of good practice guidance on conflict of interest.</p> <p>Assistant Director of Finance/Executive Services Manager/Assistant Board secretary</p> <p>30 September 2017</p>	<p>Standard declaration form now in use. Overview group will meet for the first time in February 2018 and progress will be reported to the March 2018 Audit Committee.</p> <p>The Assistant Director of Finance has been asked to participate in a national review of guidance on conflict of interest. In the meantime, use is being made of the equivalent guidance issued to English health authorities.</p>
<p>6. IT Strategy</p> <p>The board does not currently have its own formal e-Health strategy but instead uses the national e-Health strategy to inform its priorities. The ICT strategy is also a few years old and requires updating.</p>	<p>The board is currently developing its own Corporate Digital Health Strategy in consultation with all clinical and service areas. This will be underpinned by a refreshed ICT strategy and will take into account the Board's new Clinical Strategy and the health and social care partnerships plans. The process will also be informed by the national digital health and care strategy which is currently under development and expected to be published in December 2017.</p> <p>General Manager for eHealth</p> <p>31 March 2018</p>	<p>This work is ongoing.</p> <p>The Audit Committee is receiving regular updates on work being done to improve cyber security.</p>

National Fraud Initiative

12. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated 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 error.
13. The latest NFI exercise was carried out during 2017. At February 2018, NHS Grampian had reviewed in excess of 70% of its data matches. Overall, 16 errors with a value of £79,960 were identified and all relate to duplicate accounts payable invoices. There have been no identified instances of fraud and where appropriate, monies have been recovered.
14. The main reason for the duplicate payments has been the known issues with scanning software (Refer [Exhibit 1](#), item 4). Certain characters are recognised incorrectly which can lead to a second payment being generated.
15. In order to maximise the benefits of the NFI exercise, our approach recommends that higher risk matches are reviewed promptly and that the national database is used to record the strategy adopted and the outcome of the cases reviewed.
16. NHS Grampian prefer to review all cases rather than focus on recommended matches as the NFI is regarded as a useful tool for identifying duplicate payments. Senior finance staff tend to do the case reviews as it is felt to be more time efficient but due to competing demands, this also means that finding protected time to carry out the work is difficult. We also noted that the board's general approach is to work on the matches offline and to update the database on conclusion of the work. This can often be on an exception basis. We would suggest that the approach adopted for considering future matches is kept under review to ensure that the board gets the best results it can from the exercise.
17. All our reports and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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