

# NHS Borders

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for NHS Borders

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

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## Introduction

1. This report contains a summary of the key issues identified during our interim audit work carried out at NHS Borders (referred to as 'NHSB' or 'the board' throughout). This work included:

- testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements
- early substantive testing of a sample of income and expenditure transactions
- a review of the board's arrangements to prepare for the General Data Protection Regulations (GDPR)
- a review of the board's progress with the National Fraud Initiative (NFI) exercise.

2. We will use the results of this work, where required, to determine our approach during the 2017/18 financial statements audit.

3. 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 NHS Borders:

- 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.

4. We have also, under the Code of Audit Practice, carried out work on the wider dimension audit from our reviews of NFI investigation work and GDPR arrangements.

5. This report also sets out our conclusions from our review of the adequacy of the board's internal audit arrangements.

6. 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 from the NHS Borders finance team is gratefully acknowledged.

## Conclusion

7. Based on our review and testing of the main financial systems, and subject to management addressing the points raised in the action plan, we have concluded that NHS Borders:
- has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared
  - has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulation.
8. We have identified some control improvements as summarised in Exhibit 2. Our testing of the financial systems enables us to take planned assurance for our audit of the 2017/18 financial statements.
9. In terms of our wider dimension audit work we concluded that appropriate investigation work has been carried out for NFI exercise and initial plans are in place for the implementation of GDPR. However, we have identified some areas for improvement as set out in Exhibit 2.
10. We also acknowledge the good progress of the finance team to review and improve working papers to support the preparation of the financial statements.

## Work summary

11. Exhibit 1 summarises the key systems and controls that we have tested in our interim audit for financial year 2017/18:

### Exhibit 1

#### Work summary

Key system	Key controls tested
<b>Payroll</b>	Payroll validation Exception reporting Review of key payroll processes (new starters/ leavers/ payroll amendments)
<b>General Ledger</b>	IT access controls Journal authorisation Changes to standing data
<b>Trade Payables</b>	Changes to supplier bank details Aged creditors reporting Authorisation of purchase orders and invoices Budget monitoring of revenue expenditure
<b>Trade Receivables</b>	Aged debtors reporting Authorisation of debtors requests and invoices Review of overpayments

Key system	Key controls tested
Cash and Banking	Bank reconciliations Banking signatories
Fixed Assets	Reconciliations with the general ledger Budget monitoring of capital expenditure
Family Health Services	Reconciliations of Practitioner Services Division (PSD) payment schedules with the general ledger Payment verification controls and meetings with PSD

**12.** We also plan to assess stock controls in place for the 2017/18 financial year. We will therefore attend a year-end stock count at the end of March 2018, to assess the adequacy of stock taking procedures and stock valuation. We will report any relevant findings in our Annual Audit Report.

**13.** 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

**14.** Internal audit at NHS Borders is provided by PricewaterhouseCoopers (PwC). As PwC are the internal auditors for a number of shared clients with Audit Scotland, each year we complete a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review has now been completed by our NHS Greater Glasgow & Clyde external audit team for the 2017/18 financial year.

**15.** The review concluded that PwC comply with the PSIAS and have appropriate procedures in place regarding their methodology and quality arrangements. We have therefore placed assurance on internal audit's reports issued in 2017/18 for the purpose of reporting on the wider audit dimensions. However, as none of this year's internal audit reports relate directly to financial systems, we have not carried out any re-performance of their work, and not placed any reliance on internal audit, for the purpose of our audit of the financial statements.

## Risks identified

**16.** The key control and wider dimension risks identified during the interim audit are detailed in Exhibit 2. These findings will inform our approach to the financial statements audit where relevant.

**17.** 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 Borders.

**18.** Audit Scotland's methodology is to provide recommendations for areas of risk found during our audit work. We consider that it is the responsibility of management to assess the extent of these risks and to take action where necessary to mitigate these risks. Therefore, our audit approach does not attach any 'risk rating' to the issues included in the action plan below, as we consider all issues we have raised to be of significance to the board.

## Exhibit 2

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<p><b>1. General ledger: access rights</b></p> <p>We reviewed controls in place to add and delete users to the board's general ledger system (efinancials). We found that documentation or email correspondence was not always retained to evidence that changes to user access rights had been authorised by an appropriate line manager.</p> <p>We acknowledge that procedures are in place to process all access changes via the Systems Accountants team.</p> <p><b>Risk:</b> There is a risk that access rights are granted to inappropriate users.</p> <p><b>Recommendation:</b> All changes to user access rights for key financial systems should be supported by evidence of line manager authorisation.</p>	<p>We accept the finding of one instance where documentation for system access was not retained.</p> <p>Written correspondence including email authorisation will be retained for system access requests.</p>	<p>Deputy Director of Finance (Financial Accounting)</p> <p>Target date: April 2018</p>
<p><b>2. FHS: meetings with PSD</b></p> <p>Family Health Services (FHS) of the board are made up of 4 streams:</p> <ul style="list-style-type: none"> <li>• General Medical Services</li> <li>• General Dental Services</li> <li>• General Pharmacy Services</li> <li>• General Ophthalmic Services</li> </ul> <p>The Practitioners Services Division (PSD) carry out inspections and payment verification work on behalf of the board to ensure valid claims are being made by practices. Regular meetings are held with PSD to discuss payment verification (PV) reports for each of the four FHS streams. However, formal minutes are not taken at these meetings to evidence action taken from review of PV reports, responsible officers and timescales.</p> <p><b>Risk:</b> There is a risk that the board is not recording key actions taken as a result of PSD payment verification work.</p> <p><b>Recommendation:</b> Either formal minutes or an ongoing action plan should be maintained by primary care officers to evidence and review actions taken for payment verification work for all 4 streams.</p>	<p>The recommendation is accepted.</p> <p>Formal minutes or an ongoing action plan will be maintained by primary care officers to evidence and review actions.</p> <p>Escalation action will be taken where appropriate to the board's Countering Fraud Operational Group in instances which include allegation of fraud or financial irregularities.</p>	<p>Primary Care Contracts Manager</p> <p>Target date: June 2018</p>

Issue identified	Management response	Responsible officer and target date
<p><b>3. NFI: recording of outcomes</b></p> <p>NFI investigation work for the 2016/17 exercise is now largely complete. A total of 1,655 matches were issued with 1,640 being investigated. 12 outstanding matches relate to payroll, with discussions being progressed with other NHSS boards. 3 matches relate to Companies House information.</p> <p>Investigation work was completed in the extended timeline as reported to the board's Audit Committee. However, the recording of outcomes on the NFI database was expected to be completed by October 2017 and this element of work remains outstanding.</p> <p>Not all outcomes to evidence the work have been recorded on the NFI database.</p> <p>Although no cases of fraud have been found to date, investigation of matches has identified cases where duplicate payments have been made, with these monies being recovered from the suppliers.</p> <p><b>Risk:</b> Investigation work and documenting of frauds and errors is not being fully recorded on the NFI database.</p> <p><b>Recommendation:</b> We advise the finance team to update the NFI database as soon as possible to effectively document outcomes and conclusions for all data matches, in accordance with NFI guidance.</p>	<p>The board has completed and will report the investigation outcomes to the Audit Committee for 1,640 from 1,655 matches on 21st March 2018.</p> <p>Finance resource has been allocated and the NFI database was updated with the outcome of all 1,640 matches on 12th March 2018.</p> <p>Remaining match outcomes will be updated to the NFI database when investigations are concluded.</p>	<p>Deputy Director of Finance (Financial Accounting)</p> <p>Target date: April 2018</p>
<p><b>4. GDPR: progress of implementation plans</b></p> <p>The new EU General Data Protection Regulations (GDPR) come into force for all public bodies in May 2018. The board has recently set up a project group, which will report to the Information Governance Committee to oversee GDPR work. A priority for the group will be to develop an implementation plan. Key components of this plan will include:</p> <ul style="list-style-type: none"> <li>• rolling out the newly created Information Asset Register (IAR) across the board, which will form the basis of evidencing GDPR requirements</li> <li>• assigning a member of staff as the appropriate Data Protection Officer to oversee GDPR arrangements at the board</li> <li>• considering the potential additional demand for Subject Access Requests and the financial impact of these</li> </ul>	<p>Assessment of the requirements for GDPR is being taken forward by the board's Information Governance Committee.</p> <p>An implementation plan will be developed by 30 March 2018 which will document all actions and timelines required for the implementation of GDPR requirements within the organisation.</p> <p>The IAR will be progressed for completion by May 2018.</p> <p>The requirement to update appropriate policies and procedures will be included in the board's implementation plan as a specific action, however it should be noted a regional approach is being taken in this area.</p>	<p>Senior Health Information Manager</p> <p>Target date: May 2018</p>



Issue identified	Management response	Responsible officer and target date
<p>requests if this is to become a free service</p> <ul style="list-style-type: none"> <li>refreshing information governance policies to update for GDPR aspects (policies may be developed regionally).</li> </ul> <p><b>Risk:</b> While initial plans have started and training and guidance is being rolled out, there is a risk that the board will not be fully ready for GDPR implementation in May 2018. In particular, the completion of the IAR is likely to be a time consuming process. Failure to comply with new GDPR data handling arrangements could potentially result in the board incurring fines.</p> <p><b>Recommendation:</b> A GDPR implementation plan should be progressed quickly. Management should ensure key assets in each department are effectively recorded in the IAR by May 2018. Information governance policies should also be updated for GDPR and circulated to staff to raise awareness.</p>		

## Other matters

**19.** Our audit work identified an additional finding where management have provided assurances that the finance team have sufficient processes in place to mitigate the risk. This point has therefore been excluded from our action plan and relates to the following area:

- Journal authorisation:** We found that journals processed on the general ledger are not authorised by a second, more senior member of staff in the finance department until the end of the financial year. Although these checks are completed during the year-end accounting process, there remains a risk of errors occurring during the financial year. Management have provided assurances that the existing controls as part of the production of the monthly financial reports and the balance sheet control account reconciliations are deemed appropriate to mitigate the risk of errors occurring. The counter signatory by senior members of the finance team will continue as part of year-end and final accounts processing.

**Audit response:** Our substantive testing as part of our financial statements audit will be modified to test a sample of journal entries throughout the financial year, to test the appropriateness of journals entered on the general ledger. We will report any significant findings in our Annual Audit Report.

**20.** We reported this issue last year. While we have deemed this assurance to be reasonable, we have drawn this to your attention as we consider that an element of risk still remains.

## Follow up of prior year findings

**21.** We have also followed up the issues reported to management in our 2016/17 controls letter, to ensure that progress has been made in implementing the agreed actions.

**22.** In total we raised 5 matters in 2016/17. Of these 5 agreed actions:

- 2 have been fully implemented and no longer reported. These actions related to improved documentation of payroll validation checks, and recommendations relating to stock take procedures.
- 2 have been partially actioned and updated in Exhibit 3.
- 1 point remains outstanding and has been updated in Exhibit 3.

**23.** Overall the board has made reasonable progress in implementing these actions. In respect of the actions not yet fully implemented, revised responses and timescales have been agreed with management and have been included in Exhibit 3.

## Exhibit 3

### Prior year issues

Issue identified	Management response/ Audit update	Responsible officer and target date
<p><b>Debt write offs</b></p> <p>We reviewed controls in place over the monitoring of aged debt and processing debt write offs. Effective procedures are in place to review aged debt reports on a regular basis.</p> <p>As part of an agreed process, proposed write off schedules are prepared for review by the Senior Finance Team.</p> <p>As at February 2017 these proposed write offs amounted to £23,000. Debts included in the proposed schedule dated back to 2011. No write off for these aged debts has yet been actioned.</p> <p>It is acknowledged that the board is considering using an external debt recovery service to recover outstanding amounts.</p> <p>The board holds a provision for bad debts which is reviewed as part of the year-end and final accounts process.</p> <p>The Audit Committee receive a regular report on debt write off however information is not reported on doubtful debts i.e. those which have not yet exhausted the debt</p>	<p><b>Management response:</b></p> <p>This recommendation is accepted.</p> <p>The board will continue to work to recover debt until all current options for recovery are exhausted.</p> <p>The board will conclude the review of the use of an external debt recovery agency and amend our internal debt follow up process to reflect an agreed position on the use of an external agency.</p> <p>The Finance team will provide, as part of the regular debt write off report to the Audit Committee, details of doubtful debts and the provisions held within the accounts to cover an estimate of this liability to enhance our reporting in this area.</p> <p><b>Audit update as at March 2018:</b></p> <p><b>Partially actioned</b></p> <p>Full details of doubtful debts and debt write offs are now</p>	<p>Deputy Director of Finance (Financial Accounting)</p> <p>Original target date: September 2017</p> <p><b>Updated management response as at March 2018:</b></p> <p>The original target date of September 2017 was met for reports to the Audit Committee on doubtful debts. The review of the use of a debt recovery agency was also completed by September 2017.</p> <p>Finalisation of the contract with the debt recovery agency will be completed by May 2018.</p>

Issue identified	Management response/ Audit update	Responsible officer and target date
<p>follow up procedure.</p> <p><b>Risk:</b> There is a risk that the board, through the Audit Committee, is not receiving full information on the level of doubtful debts.</p> <p><b>Recommendation:</b> Management should provide regular reports on the level of doubtful debt and transacted debt write off. The board should continue to follow up on all debts to minimise the risk of financial loss to the board, and write off debts only when outstanding amounts cannot be recovered.</p>	<p>reported regularly to the Audit Committee.</p> <p>The board have decided to use an external agency to recover aged debts, which include a number of payroll overpayments. A contract with the debt recovery agency is currently being finalised.</p>	
<p><b>Salary overpayments</b></p> <p>We reviewed a sample of weekly aged debtor reports as part of our review of Trade Receivables.</p> <p>A small number of debtors invoices relate to salary overpayments. These can occur for a number of reasons including where payroll documentation (e.g. leaver forms and notification of change forms) are received late by the payroll department from line managers. For scale, the value of payroll costs is approximately £110 million per annum.</p> <p>We found that total salary overpayments as at February 2017 amounted to £35,000, with cases dating back to 2012. At the time of our review, £25,000 of this total remains outstanding with no formal payment agreed and ongoing discussions taking place to recover these amounts.</p> <p>We reviewed a sample of the highest salary overpayments to investigate the main reasons for these cases. Our total sample value amounted to £20,300. From this total, £11,500 related to either late leaver forms or late notification forms sent into payroll. The remaining £8,800 was due to a salary protection payment which should have ceased (£6,100) and due to a payroll processing error (£2,700).</p> <p><b>Risk:</b> There is a risk that the board is incurring unnecessary costs due to salary overpayments.</p> <p><b>Recommendation:</b> Line managers</p>	<p><b>Management response:</b></p> <p>This recommendation is accepted.</p> <p>The Finance Team will communicate with budget managers as part of regular meetings to reiterate the requirements of prompt completion of payroll documentation. The budget meetings template will be updated further to include a point of discussion on the submission of payroll documentation required.</p> <p><b>Audit update as at March 2018:</b></p> <p><b>Partially actioned</b></p> <p>The templates used for budget monitoring meetings now include discussion points on staffing lists and submission of payroll documentation required. This was agreed for this recommendation.</p> <p>Salary overpayments at the board continue to occur, with an updated position as at February 2018 as follows:</p> <ul style="list-style-type: none"> <li>• Total salary overpayments amounted to £57,000 (with a high value case of £11,000 soon to be recovered)</li> <li>• Of the total £57,000, £51,000 are cases where the full amount of overpayment is outstanding, £6,000 for amounts which have begun re-payment</li> </ul>	<p>Deputy Director of Finance (Financial Accounting)</p> <p>Original target date: June 2017</p> <p><b>Updated management response as at March 2018:</b></p> <p>Salary overpayments totalling £17,000 will be passed to the debt recovery agency once the contract is in place, this is estimated as being April/May 2018.</p> <p>On an ongoing basis debt recovery will be pursued by the debt recovery agency for all debt which has exhausted the board's standard debt recovery process.</p>

Issue identified	Management response/ Audit update	Responsible officer and target date
<p>should be supported to ensure payroll documentation is submitted timeously to avoid overpayments occurring.</p>	<p>(part settled)</p> <ul style="list-style-type: none"> <li>From review of the top 10 overpayments, these amounted to £37,000 (65% of total overpayments)</li> <li>From the top 10, we found that 5 overpayments were due to late forms received by the payroll department (total £13,000)</li> <li>The other 5 were due to payroll processing errors (total £24,000)</li> <li>Amounts totalling £17,000 will be passed to the new debt recovery agency.</li> </ul>	
<p><b>Supplier checks</b></p> <p>We tested a sample of new suppliers set up and changes to supplier details.</p> <p>The finance team use a Supplier Maintenance Request Form to record all changes for a supplier and details of the change actioned is checked against supporting documentation provided. The team will verify directly by telephone with the supplier where a change to bank account details is required. The evidence of this control is in the form of a signature of the relevant finance team member on the request form.</p> <p>Although the form is signed by the officer making the changes it is not specifically signed that the bank details have been verified.</p> <p><b>Risk:</b> There is a risk that payments are made to suppliers incorrectly.</p> <p><b>Recommendation:</b> We recommend that the template Supplier Maintenance Request Form is revised to include an explicit check which confirms bank details have been verified for all new suppliers.</p>	<p><b>Management response:</b></p> <p>This recommendation is accepted.</p> <p>The Supplier Maintenance Request Form will be amended to record details of verification with the supplier for changes to bank details. Finance staff will be reminded to evidence these checks more consistently.</p> <p><b>Audit update as at March 2018:</b></p> <p><b>Not actioned</b></p> <p>Our review in February 2018 this year found no changes to the Supplier Maintenance Request Form used by the Finance team.</p> <p>Our sample testing of new suppliers and changes to supplier bank details found that inconsistent evidence and documentation was retained on file, to confirm bank details have been appropriately verified with each supplier.</p> <p>We would advise a more consistent approach is taken to evidence these important supplier checks.</p>	<p>Deputy Director of Finance (Financial Accounting)</p> <p>Original target date: April 2017</p> <p><b>Updated management response as at March 2018:</b></p> <p>Staff were advised of the information to be recorded on the form. We acknowledge that there remain some inconsistencies in documenting the changes actioned.</p> <p>The Supplier Maintenance Request Form has now be changed (March 2018) to reinforce the requirement to specifically identify the change process followed by staff. Staff have been reminded of the appropriate documentation to retain on file, to evidence that changes to supplier bank details have been appropriately authorised.</p>

# NHS Borders

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