

# NHS National Services Scotland

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland

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

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS National Services Scotland ('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 funding and income and non-payroll expenditure transactions. We have placed reliance on internal audit's work, where appropriate. 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 NHS National Services Scotland:

- 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 through our review of the board's progress with the National Fraud Initiative (NFI) exercise.

4. 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

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 National Services Scotland:

- 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 will enable 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 the NFI exercise and that the results have been reported to the Board. Our conclusions will inform the national report on the 2016/17 NFI exercise, expected to be published in June 2018.

## Work summary

10. 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 Interface between HR and Payroll systems Review of key payroll processes (new starters/ leavers/ payroll amendments)
<b>General Ledger</b>	IT access controls Journal authorisation Changes to standing data Feeder system reconciliations Bank reconciliations Budget monitoring of revenue expenditure
<b>Trade Payables</b>	Changes to supplier bank details Authorisation of purchase orders and invoices
<b>Trade Receivables</b>	Authorisation of debtors requests and invoices
<b>Non Current Assets</b>	Reconciliations with the general ledger
<b>Inventories</b>	Authorisation of purchase orders and invoices Authorisation of write-offs

11. 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.

12. We have carried out early substantive testing on non-payroll expenditure and income transactions for the first 9 months of the year. There are a small number of transactions for which we requested further supporting documentation or clarification from finance staff. These queries are being resolved as part of the income and expenditure testing in our final accounts audit which covers the rest of the financial year. No errors have been identified in our sample testing.

13. In respect of the wider dimension work, in addition to our review of NFI investigations, we have work ongoing in respect of NSS's preparations for the transfer of services and people to the new public health body; cyber security arrangements; and the contract management regime for national IT contracts. The outcomes of this work will be reported in the Annual Audit Report in June 2018.

## Risks identified

14. 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.

15. 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 the Board.

## Exhibit 2

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<b>1. Lack of evidence of system reconciliations being reviewed</b>		
<p>Our testing identified instances where three different types of reconciliation were not evidenced as reviewed. Review by a second officer is an important control to identify and correct errors on a timely basis.</p>	<p>Accepted.</p> <p>Controls and processes for reconciliations have been reviewed and updated when this issue was highlighted.</p>	<p>Head of Corporate Reporting</p> <p>September 2018</p>
<p><b>Bank Reconciliations:</b> Despite the use of a control sheet to ensure all reconciliations are completed, checked and authorised in a timely manner, the NatWest and RBS bank reconciliations for November 2017 were not signed as checked and authorised.</p>	<p>NSS are looking into a system for automated reconciliations with workflow for authorising and resolving issues. This will improve the reconciliation process.</p>	
<p><b>Feeder system reconciliations:</b> There is no evidence of review of one of the feeder system reconciliations being reviewed (the June 2017 capital reconciliation). We were informed that the reviewer had reviewed another month's reconciliation in error due to a mix-up on the dates in the control checklist.</p>		
<p><b>HR &amp; Payroll systems reconciliations:</b> The interface between eESS HR and the payroll system is now in place, but there are a number of processes that do not automatically interface across both systems and require some manual intervention. There are daily reconciliations between both systems to capture updates that have not interfaced properly. We were unable to evidence any review of these reconciliations.</p>	<p>80% of high volume transactions are reconciled daily via the eESS payroll interface and anomalies or anything that has not interfaced properly appears on an electronic pending summary dashboard. This is reviewed and actioned daily by HR and automatically clears off the report when corrective action has been taken. Further checks are then made by payroll upon receipt.</p>	<p>Director of HR and Workforce and Development</p> <p>September 2018</p>
<p><b>There is an increased risk of undetected error or fraud if reconciliations are not checked and</b></p>	<p>20% of transactions do not automatically interface with payroll but appear on an electronic payroll notification of summary</p>	

Issue identified	Management response	Responsible officer and target date
<p><b>authorised by a second officer on a timely basis.</b></p>	<p>dashboard. Transactions are reviewed daily by HR and cross-checked against the transactions entered, downloaded and saved to a payroll holding folder to enable payroll to process. This process is fully auditable and again further checked upon receipt by payroll.</p>	
<h2>2. Segregation of duties</h2>		
<p><b>Changes to supplier bank details:</b> The system access rights for the Finance Process Manager (FPM) tool used to amend standing data in the e-Financials ledger allow processing staff within the procurement team to both enter and approve changes to supplier bank details.</p> <p>We found one instance in our sample testing within the XP1 sub-ledger in which the originator had also approved their own change to supplier bank details.</p> <p><b>The absence of segregation of duties between the processing and approval of changes to supplier bank details increases the risk of fraudulent payments.</b></p> <p><b>This is a common area of attempted fraud. It is essential that all changes to supplier bank details can be checked back to relevant supporting documentation.</b></p>	<p>The FPM system changes have a three stage approval process. The originator from the procurement team, approver by another member of the procurement team. The Principal Finance Manager in Financial Services receives a report from the system the following morning and approves all changes made prior to any payments being made. In this instance although the individual had input and approved the change it was subsequently approved by the Head of Financial Services in line with process.</p> <p>Processes have been updated to ensure there is appropriate cover in the procurement team at all times which will avoid this recurring in the future.</p>	<p>Head of NSS Procurement</p> <p>Complete</p>
<p><b>Journal authorisation:</b> Financial and management accountants who raise journals are able to automatically approve the journals raised, there is no separate authorisation/approval of journals.</p> <p>While the e-financials system is set up to allow raising and authorisation of journals by the same individual, best practice requires segregation between preparation and authorising of journals by officers.</p> <p>Budget monitoring by budget holders may identify mis-postings to the wrong ledger code, but budget monitoring arrangements do not consider journals specifically.</p> <p><b>The lack of independent approval/authorisation of journals can lead to manipulation of financial position.</b></p> <p><b>Generally, there is a risk that a lack of segregation of duties could lead to</b></p>	<p>The budget monitoring and reporting cycle includes a detailed review of the SBU financial position and movements. Journals are included in this review. Posting of journals is also reviewed as part of the balance sheet reconciliation process on a monthly basis. As a result of this the risk of mispostings is greatly reduced.</p>	<p>Associate Director of Finance - Financial Planning and Analysis.</p> <p>Complete</p>

Issue identified	Management response	Responsible officer and target date
<p><b>incorrect accounting records and material misstatements in the accounts.</b></p>		
<p><b>3. Lack of supporting documentation (acceptance of employment contract)</b></p> <p>There was no signed contract of employment letter on file for one of the new starts within the sample tested in February 2018. The member of staff has been in post since November 2017.</p> <p><b>Appropriate, signed, documentation should be retained to support staff costs expenditure: signed contracts should be held for all staff.</b></p>	<p>Accepted</p> <p>There are processes in place within HR to follow up issued contracts to ensure sign off. This particular issue relates to queries which are being resolved so a signed contract can be obtained.</p>	<p>Director of HR and Workforce Development</p> <p>May 2018</p>
<p><b>4. Access to the payroll system</b></p> <p>Standard request forms are not completed to request access to the payroll system; requests are made verbally or via email. There is not always an audit trail to demonstrate why the system access is appropriate.</p> <p>Payroll staff consider most of the system access granted to be low risk as it is read-only access. However, the system contains personal data and NSS should be able to fully demonstrate the audit trail to confirm appropriate system access.</p> <p><b>NSS must be able to demonstrate that access to personal data is appropriate under the new General Data Protection Regulation (GDPR) from 25 May 2018.</b></p>	<p>Accepted</p> <p>Access to the system is provided by Head of payroll for NSS based on business need and approval of a line manager. Access to the system is restricted to payroll, HR and finance staff. User defined roles are in place to ensure only appropriate information for the role can be accessed.</p> <p>This process will be reviewed to ensure NSS comply with the new General Data Protection Regulations.</p>	<p>Associate Director of Finance - Financial Services</p> <p>May 2018</p>
<p>Source: Audit Scotland</p>		

**16.** All our reports and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



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