



Scott-Moncrieff
business advisers and accountants

The State Hospitals Board for Scotland

Interim audit report

For the year ended 31 March 2018

March 2018

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Introduction

Introduction

1. This report concludes our 2017/18 interim audit at the State Hospitals Board for Scotland (“the Board”) and summarises the results of our review of the key financial systems.

Scope of our interim audit

2. Auditors are required to carry out the audit of financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)). To comply with the requirements of the ISAs (UK) we consider the key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
3. Our approach includes documenting the processes and key internal financial controls within the key financial systems and performing walkthrough testing to confirm our understanding of those systems.
4. During our 2017/18 interim audit we have also considered the work undertaken by the Board in preparation for the introduction of the General Data Protection Regulation (GDPR).

Reporting to those charged with governance

5. This report has been prepared to communicate the findings of our interim audit to those charged with governance. We have agreed with the Board that these communications will be through the Audit Committee.
6. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls.
7. International Standards on Auditing (UK) (ISAs (UK)) require us to report promptly any material weaknesses in the design or operation of internal financial controls which have come to our attention.
8. A material weakness in internal control is a deficiency which could adversely affect the Board’s ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

9. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Board of its responsibility to address the issues raised and to maintain an adequate system of control.
10. As required under the Code of Audit Practice, this report will be published on Audit Scotland’s website: www.audit-scotland.gov.uk.

Adding value through the audit

11. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

12. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments: <https://www.surveymonkey.co.uk/r/S2SPZBX>
13. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit visits.



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Summary of findings

Summary of findings

Review of key financial systems

14. We are pleased to report that our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over the key financial systems. We consider these systems to be well designed. However, we identified one area with scope for improvement which, if addressed, would further strengthen the system of internal financial control. Our finding and recommendation is included in section 3 (Action plan).

Action plan point 1

Follow up of prior year audit recommendations

15. As part of our audit, we have followed up on the outstanding recommendations from prior years which have passed their agreed implementation date. As noted in the table below, one recommendation, where the completion date has passed has yet to be implemented. Detail of the outstanding recommendation is included in section 3 (Action plan).

Year	2015/16	2016/17
Total number of recommendations	2	1
Complete	1	0
Outstanding	1	0
Completion date not yet passed	0	1

General Data Protection Regulation (GDPR)

16. During our interim audit we have considered the extent to which the Board is prepared for the introduction of GDPR on 25 May 2018. Based on our current understanding, we have no issues to report in respect of the Board's preparation for the introduction of GDPR and do not currently deem this to be a significant audit risk.

17. The Board has been working to the guidance published by the Information Commissioner's

Office; 'Preparing for GDPR – 12 steps to take now'.

18. We noted that the Board has updated their Data Protection Policy to ensure it is aligned to the Regulation. Changes in practices and policy were communicated to all staff through a bulletin in January 2018. Internal Audit completed a review of the Board's arrangements in September 2017 and provided assurance to the Audit Committee that appropriate actions and timescales are being considered and implemented.

Preparatory final accounts audit work

19. During our interim audit we undertook preparatory work for our final accounts audit. This included the following audit work:

- Discussions with management;
- Review of internal audit reports; and
- Review of the Board and committee minutes.

20. We confirmed that arrangements have been made to ensure the finance function can continue to operate effectively following the retirement of the Head of Financial Accounting in April 2018. We did not identify any issues during our preparatory final accounts audit work that require reporting.

21. We have also considered updates from management regarding the wider scope audit areas; financial management; financial sustainability; governance and transparency; and value for money. In addition, we further discussed the five key risk areas identified within our External Audit Plan; EU withdrawal; new financial powers; ending of the public sector pay cap; response to cyber security risks; and openness and transparency. We have not identified any further risks at this stage other than those identified within our External Audit Plan. We will however review and update our assessment if we identify any issues during our audit.

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Action plan

Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review and an update on recommendations from past audits. To assist management in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

It should be noted that the weaknesses identified in this report are only those which have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements which may exist.

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action plan point	Issue & Recommendation	Management Comments
1. Financial procedures	<p>Issue identified</p> <p>We reviewed the Board's financial procedures and noted that the following processes are not included:</p> <ul style="list-style-type: none"> • Fixed asset verification; and • Management of service level agreements. <p>Risk</p> <p>Documented policies and procedures are key to supporting business continuity and provide assurance that processes are carried out consistently.</p> <p>With the departure of key finance staff, there is an increased risk that procedures will not be correctly implemented, resulting in potential fraud or error.</p> <p>Recommendation</p> <p>Financial procedures should be reviewed and updated to reflect all activity undertaken by the Board.</p>	<p>Fixed asset verification procedure now included in our Finance Procedure Manual</p> <p>Responsible officer: Head of Financial Accounts</p> <p>Implementation date: Immediate</p> <p>The procedure for management of service level agreements will be prepared</p> <p>Responsible officer: Procurement Manager</p> <p>Implementation date: May 2018</p>
Rating		
Grade 3		

Update on recommendation from our 2015/16 interim audit report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<p>Service Level Agreements</p> <p>Rating</p> <p>Grade 3</p>	<p>Issue identified</p> <p>As part of our interim audit work we reviewed a sample of 18 SLAs which were listed on the register to establish:</p> <ul style="list-style-type: none"> • Whether the SLA existed • The SLA was up to date • The SLA has been authorised. <p>From our audit work we were unable to locate five out of the 18 SLAs selected for testing and a further one had expired. As outlined in the Board's Standing Financial Instructions, SLAs should be devised to minimise risk whilst maximising the Board's opportunity to generate income.</p> <p>Recommendation</p> <p>We recommend the Board review its register of SLAs to ensure all are in place and are up to date.</p>	<p>Accepted</p> <p>Responsible Officer:</p> <p>Finance and Performance Management Director.</p> <p>Completion date:</p> <p>2016/17</p> <p>2016/17 update</p> <p>A full review of SLAs is underway with corrective action points being identified.</p> <p>Responsible Officer:</p> <p>Finance and Performance Management Director.</p> <p>Completion date:</p> <p>September 2017</p>	<p>External audit update</p> <p>The review of SLAs is still underway and has not yet been completed. This issue was originally raised in 2015/16 and further action is required to ensure all SLAs are in place and up to date. As limited progress has been made, we have not carried out any detailed testing in 2017/18.</p> <p>Risk</p> <p>There is a risk that the Board is undertaking activity without an authorised and up to date SLA in place. If any issues were to arise under these arrangements, the Board may not be able to fully protect itself against any financial or reputational damage.</p> <p>Management comments</p> <p>This has been ongoing and the register is expected to be completed by end of May 2018</p> <p>Responsible officer:</p> <p>Procurement Manager</p> <p>Implementation date: end of May 2018</p>



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