

NHS Lanarkshire

Management report 2019/20



 AUDIT SCOTLAND

Prepared for NHS Lanarkshire
May 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Lanarkshire. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements, in the period to January 2020. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit. In addition, we also undertook some early substantive testing to gain assurances over the transactions on which the financial statements are built.

2. Since we concluded the work reported here the UK has initiated and escalated its response to the management of COVID-19. We note that the board is monitoring ongoing medical and government advice and taking action where appropriate. This represents a significant business risk to the board and its ongoing services. We will monitor the board's response to the pandemic and changes to its governance arrangements in response to the changing environment. This issue is expected to have an impact on the timing and scope of the production of the accounts by the board and the subsequent audit of the accounts. We will keep in touch with the board to assess the ongoing impact of COVID-19 on the board and the 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 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.

4. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management, financial sustainability, governance and transparency and value for money.

Conclusion

5. We identified some control weaknesses as summarised in [Exhibit 1](#) overleaf. In addition, a small number of control weaknesses reported by us last year remain. We have undertaken some additional audit work in these areas to gain the necessary assurances for the audit of the 2019/20 financial statements. Specifically, this work focussed on the verification of the existence of a sample of employees and substantively testing overtime payments and journals. This enables us to take planned assurance for our audit of the 2019/20 financial statements.

6. In terms our wider dimension audit work we concluded that appropriate arrangements were in place for financial management, financial sustainability, governance and transparency and value for money although with some areas for improvement as set out in [Exhibit 1](#).

Work summary

7. Our 2019/20 testing covered key controls in a number of areas including bank reconciliations, payroll validation, authorisation of journals and change of supplier bank details in the period to January 2020. Additionally, our testing covered budget monitoring and control and feeder system reconciliations. We also carried out work to conclude on our wider dimensions responsibilities.

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. 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.

Risks identified

10. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

11. 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 Lanarkshire.

Additional follow-up / early testing work

12. As part of our audit planning process, we identified some potential audit risks in respect of overtime payments, employee existence, payroll overpayments and the authorisation of journals. We undertook some additional testing in response to each of these to gain the necessary assurances for the audit of the 2019/20 financial statements. Issues identified from this testing have been included in [Exhibit 1](#) below.

13. In 2019 a suspected fraud was identified in respect of the authorisation of overtime payments. The board undertook a review of internal controls which resulted in a revised approach being developed for authorising overtime payments. The revised arrangements were implemented across all sites by March 2020. The board has demonstrated that it takes appropriate steps to learn lessons when control weaknesses are identified. To gain the assurances required for the financial statements audit in respect of overtime costs, we selected a sample of 30 overtime payments and confirmed that these had been duly authorised and had been paid at the correct rate. We found no errors in this testing.

14. We have previously reported that the board did not carry out comprehensive checks to confirm that only valid employees were being paid through the payroll system. The absence of regular comprehensive checks, requiring positive confirmation from employing departments, meant there was a risk that erroneous employees could be being paid. To gain the assurances required for the financial statements audit we selected a sample of 30 employees from payroll records and confirmed that they were valid employees. No errors were identified from this testing. We have now been advised that the board will enhance existing checks to require positive confirmation from employing departments. The board should ensure that these comprehensive checks are carried out consistently, covering all employees and employing departments.

15. In our 2019/20 annual audit plan we highlighted that there was a risk of overpayments to employees due to the late submission of termination forms when an employee leaves the organisation or where there has been a delay in actioning changes to an employee's contracted hours. We obtained a listing of all identified payroll overpayments and sought to ensure that these were being followed up timeously. Our testing found that while there was evidence of overpayments being recovered from ongoing salary entitlement where possible, there were delays in pursuing some overpayments to employees. The board should ensure it has appropriate arrangements in place to ensure that all overpayments are followed up promptly to maximise the likelihood of recovery.

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>Employee existence testing</p> <p>The board has now implemented regular checks to confirm the existence of employees being paid through the payroll system, which require positive confirmation from employing departments. These checks are done by management accounts as part of budget monitoring arrangements. The board should ensure that these comprehensive checks are carried out consistently, covering all employees and employing departments.</p> <p>There is a risk that the absence of a centralised approach means that not all employees and employing departments are being reviewed and confirmed.</p>	<p>The new checks implemented this year have provided further assurance in this area. Going forward, a consistent approach for gaining confirmation from employing departments will be addressed where possible.</p>	<p>Deputy Director of Finance (Acute), Deputy Director of Finance (Primary Care), Deputy Director of Finance (Corporate)</p> <p>October 2020</p>
<p>Terminations</p> <p>Prompt notification to payroll of employee terminations is essential to ensure that payments of salary are stopped timeously, thereby preventing overpayments.</p> <p>Our testing found one occasion out of a sample of 15 where the notification of the termination of employment was not submitted to payroll until one week following the termination date.</p> <p>There is a risk that delays in notifying payroll of employee terminations results in overpayments of salary which can be difficult to recover.</p>	<p>Informing Payroll of staff terminations is the responsibility of line managers and is carried out through the eESS process. In addition to checks carried out in the above recommendation, the Board will issue reminders to staff to ensure that termination notifications are completed timeously.</p>	<p>Director of HR, Deputy Director of Finance (Corporate)</p> <p>Immediate</p>

Issue identified	Management response	Responsible officer / target date
<p>Payroll overpayments</p> <p>Overpayments of salary arise where there are delays in changes in pay entitlement being actioned. To date, in 2019/20 the board has identified salary overpayments of around £308,000, £223,000 of which have either been fully recovered or have a repayment plan in place.</p> <p>Our testing found that while there was evidence of overpayments being recovered from ongoing salary entitlement where possible, there were delays in pursuing some overpayments. The board should ensure it has appropriate arrangements in place to ensure that all overpayments are followed up promptly to maximise the likelihood of recovery.</p> <p>There is a risk that the board is not able to fully recover payroll overpayments.</p>	<p>The 'Overpayments/Money Owed Policy' sets out a clear process for recovering overpayments of salary including timescales for letters to be sent to employees to communicate the overpayment. Although the first letter informing the employee of the salary overpayment was in line with policy, if no response was received from the employee, there have been occasions when a follow up letter was not sent out within a reasonable time period. The Board will address this by setting up Payroll reminders in Payroll Officers diaries to ensure letters are sent out in a more timeous manner.</p>	<p>Deputy Director of Finance (Corporate)</p> <p>Immediate</p>
<p>Reconciliation between feeder systems and the ledger</p> <p>The board has procedures in place which require reconciliations between feeder systems and the ledger to be completed and authorised within four weeks of the period end. Our audit testing found that from a sample of 15 reconciliations, there were two instances where, while the reconciliations had been prepared promptly, they were not reviewed and authorised until six weeks after the period end.</p> <p>There is a risk that financial discrepancies are not identified and resolved timeously.</p>	<p>The Board will ensure reconciliations are reviewed in a more timeous manner.</p>	<p>Deputy Director of Finance (Corporate)</p> <p>Immediate</p>
<p>Ledger coding</p> <p>Our audit testing found two instances from a sample of 25 where the ledger coding applied to expenditure did not accord with the nature of the expenditure. This inconsistency does not impact on the value of expenditure in the annual accounts, but it does impact on the classification of expenditure in the notes to the accounts.</p>	<p>Management accountants carry out reviews of ledger coding as part of the monthly management accounts process and reallocate where necessary.</p> <p>Additionally, when preparing the notes to the annual accounts, the lead for that note will review the expenditure allocated to each ledger code used for that note and amend any miscoding at that point.</p> <p>Given the above the Board are confident that the classification of expenditure in the annual accounts is</p>	<p>Deputy Director of Finance (Acute), Deputy Director of Finance (Primary Care), Deputy Director of Finance (Corporate)</p>

Issue identified	Management response	Responsible officer / target date
<p>There is a risk that expenditure is wrongly classified in the notes to the annual accounts.</p>	<p>accurate and that no further action is required.</p>	
<p>Audit dimensions - issues and risks</p>		
<p>Succession planning</p> <p>Succession planning is important to ensure that an organisation has the right people, skills, knowledge and experience in place to ensure continuity of service.</p> <p>There has been some changes in senior staffing during the year, notably in finance and payroll. The board has, in part, sought to manage these changes by asking experienced staff to return, on a short-term, part-time basis to minimise disruption to service delivery and to ensure knowledge and skills are retained within the organisation. The board is commended for taking decisions to minimise service disruption and it should ensure there is appropriate succession planning in place to effectively manage senior staffing changes.</p> <p>In addition, the board has also experienced challenges in recruiting suitably qualified accountants for the finance team.</p> <p>There is a risk that key knowledge and skills are not available to the organisation which may result in disruption to services.</p>	<p>Experience in recent years has highlighted recruitment difficulties when going to the market at a band 7 level for fully qualified accountants and throughout the NHS in Scotland when looking for experienced payroll managers.</p> <p>At the band 7 level we are being proactive through supporting our own staff to complete a professional qualification and also giving them internal development opportunities when appropriate vacancies arise. We have also participated in the national finance training scheme. We still have one vacancy to fill and in 2020/21 will further review our approach to this level of post.</p> <p>At the very senior level our succession planning has been successful, and we were able to restructure the portfolio of the Deputy Finance Director for acute and corporate into two sustainable roles, one of which was tested nationally with the internal candidate performing strongest at interview. We also, through planning well in advance of retirement with the previous deputy rather than any forced reliance, proactively agreed a continued input to ongoing projects to ensure a very smooth handover.</p> <p>With payroll, recognition of the national shortage has meant we have been engaging for some time with other West Boards and have been supportive of looking at a more regional structure. So far only the SSTS function has moved in that direction. The payroll department experienced, unusually, the loss of both manager and deputy within a short period. We were delighted to be able to engage a highly experienced payroll manager from the national systems team. They are working closely with the new deputy, recruited through internal promotion from the team leaders, to develop payroll management expertise. Given the unusual loss of 2 posts plus the relatively short notice (1 month under AFC) we did explore all interim</p>	<p>Director of Finance</p>

Issue identified	Management response	Responsible officer / target date
	<p>contingency arrangements including welcome support from a previous Payroll manager and engaging with NHS GG & C for cover should we not be able to find our own.</p> <p>We are far from complacent on the ongoing challenge presented in these areas.</p>	
<p>Cyber security</p> <p>The board achieved its Cyber Essentials accreditation in October 2018 which provided a measure of the cyber security arrangements in place. The certificate issued to the board advised that that the accreditation was recommended for review in September 2019. We are advised by the board that this is an advisory renewal date and that the decision was taken not to renew this is 2019/20 as an annual re-certification is going to be required from 1 April 2020, under new arrangements, so work is ongoing for renewal at this time. The board should assure itself that it has appropriate arrangements in place to maintain good cyber security.</p> <p>There is a risk that the board is exposed to cyber threats if it does not have appropriate cyber security arrangements in place.</p>	<p>NHS Lanarkshire takes Cyber Security as a critical function and existing governance arrangements for Cyber Security reporting is carried out via the Information Guidance Committee. A dedicated Cyber Security Group has been established and an active programme is in place to oversee the NIS Directive and Cyber Essential Plus. NHS Lanarkshire is connected (for real-time advanced threat protection) to the National Cyber Security Operations Centre (NSOC) which includes a link to the NCSC (national cyber security centre UK).</p> <p>Whilst Cyber Security remains on the corporate risk register extensive mitigation is in place with appropriate oversight and scrutiny.</p>	<p>Director of Information & Digital Technology</p> <p>Ongoing</p>
<p>Openness and transparency</p> <p>We previously encouraged the board to consider improving transparency by holding committee meetings in public. The board has responded that it would prefer to focus on improving public attendance at Board meetings. We acknowledge the board's position on this. As an alternative to public access to committee meetings, minutes of all meetings are available through the Board papers. To improve transparency, the minutes of committee meetings should be available independently of Board papers to ensure they are visible to and searchable by the users of the board's website.</p> <p>There may be a public perception of a lack of transparency.</p>	<p>The Board is very keen to ensure that there is transparency across all governance areas. The Board Governance Committee Minutes are included in the Board papers and are already available publicly. However, to increase transparency, one of the developments that we have planned for 2020/21 is the development of a section within the web site showing the Organisational Structure, and links to key Committees and Groups. Bearing in mind the pressures on web developer resources at the present time (wholly devoted to Covid-19 web updates) we would hope to complete this development by the end of September 2020, such that each Governance Committee has its own dedicated page containing minutes of previous meetings and other useful general information about the Committee.</p>	<p>Board Secretary</p> <p>September 2020</p>

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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