

Internal Audit



Consort Invoicing

February 2021

Internal Audit Assurance assessment:

Review of Consort Invoicing
Limited Assurance

Timetable

Date closing meeting held: 1st March 2021

Date draft report issued: 10th March 2021

Date management comments received: 21st May 2021 (with subsequent additional comments from the finance team on recommendations)

Date Final report issued: 8th June 2021

Date presented to Audit and Risk Committee: 21st June 2021

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Contents

1. Introduction.....	3
2. Executive Summary	5
3. Management Action Plan	7
4. Internal Audit Follow-up Process.....	19
5. Appendix 1 – Summary of Testing Results.....	20
6. Appendix 2 – Staff Involved and documents reviewed	23
7. Appendix 3 - Definition of Ratings	24

1. Introduction

1.1 The Royal Infirmary Edinburgh's (RIE) Private Finance Initiative (PFI) contract is the largest in the Board's capital portfolio and accounts for circa £60 million of NHS Lothian's revenue expenditure. The PFI is managed by Consort who provide a range of services including facilities, meals, ward issues, various works and agreed projects. In 2019/20, there were 286 invoices processed relating to the contract. The invoicing process is complex. There are multiple service elements to the invoice, some upfront payments, some based on fixed costs and lastly certain costs which per the contract are variable, each subject to different timescales and payment requirements.

1.2 The contract is made up of elements which represent both fixed and variable costs to NHS Lothian. The key elements for which invoices are received include:

1) Facilities and ancillary service payments as well as facilities maintenance payments

- Facilities service payments are fixed and relate to the monthly contract with Consort
- Facilities maintenance is the fixed price agreed for maintaining the site.
- Ancillary service payments are made up of fixed and variable elements and relate to soft facilities management services, such as catering, domestics, laundry, portering and waste management, telecommunications and materials management.

These elements are invoiced together and costs totalled £51.8 million in 2019/20;

2) Patient meals and ward issues – a variable cost, totalling £4 million in 2019/20;

3) Gas and Electricity charges – a variable cost, totalling £5.383 million in 2019/20;

4) Various other lower value items such as minor works, ID badges, purchase of computer hardware and parking permits. Variable costs, totalling £0.4 million in 2019/20; and

5) The Board also receives an income from Consort resulting from car park charges, which is managed by Consort. This has already been the subject of audit review, reported in 2020.

Scope

1.3 The scope of the audit review included the following:

1.4 Review invoices received, on a sample basis for higher value invoices, to assess: Appropriateness of value; Correctness of time period; Application of indexation; VAT treatment; The evidence produced to support invoice amount; Correct application of the procedure set out in the contract.

- 1.5 Review and document the process applied by NHS Lothian to scrutinise and approve invoices and process them for payment. Test this process against the methodology/timeline stipulated within the contract.
- 1.6 Consider whether, given the structure of budgetary responsibilities and constraints of the contract, improvements could be made to the invoicing process e.g. to reduce the volume of invoices.
- 1.7 To consider what improvements could be made to the management of invoices to enhance the Board's ability to forecast expenditure and ensure a better match between revenue funding required and sums allocated.
- 1.8 Consider elements of the process that can be amended by the Board, for example, limits applicable to minor works values, budget allocations.

Acknowledgements

- 1.9 We would like to thank all staff consulted during this review, for their assistance and cooperation.

2. Executive Summary

Summary of Findings

- 2.1 The table below summarises our assessment of the risks and the adequacy and effectiveness of the controls in place to meet each of the risk areas agreed for this audit. Definitions of the ratings applied to each action are set out in **Appendix 3**.

Finding No.	Finding summary	Number of findings			
		Critical	High	Medium	Low
1	Oversight of the contract requires improvement	1	-	-	-
2	There is not a clear process in place for the review and approval of invoices	-	1	-	-
3	Expectations of invoice amounts should be set and any exceptions to invoices received investigated	-	1	-	-
4	Payment of invoices needs to be balanced against the 10-day target	-	1	-	-
5	Document Management and approval of contract changes requires improvement	-	-	1	-
6	Opportunities to work with Consort to improve the timing of invoices, allowing for better forecasting	-	-	1	-
TOTAL		1	3	2	-

Conclusion

- 2.2 We have conducted our review in accordance with the agreed scope which outlines key points of consideration. Results of our observations and testing in relation to the invoices tested are documented in **Appendix 1**. These testing results provide overarching support to the findings as outlined within the management action plan.
- 2.3 We have identified a number of areas requiring improvement relating to the management of the Consort contract, the approval process for invoices and corresponding scheme of delegation, investigating charges which are out with set expectations and the payment of invoices. We have also noted there are opportunities to improve the document management of the contract and its variations as well as opportunities to better work with Consort to manage the invoicing process and potential reduction in miscellaneous invoices. These have been outlined within our management action plan below.
- 2.4 It should be noted that NHS Lothian identified that there was a risk over the management of the contract and internal audit has been engaged to perform this review as a result as of various workstreams being put in place to enhance the controls around the contract. However, our review covered the processes in place before these improvements were implemented and we have not tested the design or operating effectiveness of these new controls.

Methodology and Approach

- 2.5 We completed sample testing over invoices payable by NHS Lothian as received by Consort Co. for the 18-month period from 01/04/2019 to 30/09/2020. Our sample included invoices for the following types of goods and services: ancillary services; facilities usage; facilities maintenance; facilities services; facilities energy; service charge orders (DSCO); works orders including minor works, TAWO and UAWO; rent; meals; ward issues.
- 2.6 We conducted interviews and discussions with NHS Lothian employees who have had responsibilities in relation to the contract. These individuals included the relevant Business Partner, members of the Estates Team and Finance Team members.
- 2.7 A complete listing of staff involved, and documents reviewed can be seen at **Appendix 2**.

3. Management Action Plan

Finding 1 – Oversight of the contract requires immediate improvement	Critical
<p><u>Background</u></p> <p>The Royal Infirmary Edinburgh's (RIE) Private Finance Initiative (PFI) contract is the largest in the Board's capital portfolio and accounts for circa £60 million of NHS Lothian's revenue expenditure. The PFI is managed by Consort who provide a range of services including facilities, meals, ward issues, various works and agreed projects.</p> <p>Prior to the change to the Director of Finance in November 2020, The Director of Facilities-Operations had the overall responsibility for the operational contract management and technical assurance. Support is provided by the Head of Business Support & Asset Management, 2 contract managers and 2 monitoring officers. Technical assurance is provided by Hard FM however it is recognised that there is no dedicated resource.</p> <p><u>Observation and Risk</u></p> <p>To ensure NHS Lothian receives the performance standards set out in the Project Agreement, it is essential that sufficient resource with the necessary skills is involved in the management of the contract. This would help provide advice on legislative changes, contract variations, minor works, application of penalties and deductions, monitoring of KPI's, technical assurances and statutory compliance. Our review identified that this was not always being done, as demonstrated by the other findings in this report.</p> <p>There is a risk that without being managed effectively, NHS Lothian may not receive the level and quality of service that it has contracted for. This is critical given the RIE is NHS Lothian's main acute and trauma site and failure to deliver against the contract has major consequences for the Board.</p> <p>This has been identified as a risk by NHS Lothian which is why internal audit services have been engaged and there are a number of workstreams in place to rectify this. Whilst this has been identified and actions are being put in place, based on our review at the time and the documentation we looked at, there were control deficiencies noted, as outlined in our other findings.</p>	
<p><u>Recommendation</u></p> <p>NHS Lothian should conclude on the internal work performed relating to the contract and should consider this in light of the findings identified within this review and the Estates review, for the opportunity to refresh both control environments and consider how the contract should be managed going forwards.</p>	

Management Response

NHS Lothian recognises the critical need for more formal arrangements with this contract and has made recent appointments for a commercial and operational dedicated resource at the RIE (PFI site). This should provide the essential skill mix and sufficient resource to manage the contract reflecting the findings in this report. We recognise this will help us to respond to legislative changes, contract variations, minor works, application of penalties and deductions, monitoring of KPI's, technical assurances and statutory compliance.

Management Action

NHSL have now established an executive oversight group tasked with monitoring the progress of the contract management and performance of the estate. The additional commercial and operational resource will be embedded within this governance structure to ensure adequate escalation opportunities are in place. A programme of work is under development to seek rapid improvement of the current arrangements and stronger governance will be in place by August 2021. In addition, there are plans to mobilise a Contract Management Function for the Little France Campus by July at the latest.

NHS Lothian agrees to conclude the internal work performed relating to the contract and will utilise the findings identified within this review and the Estates review, as an opportunity to refresh both control environments and consider how the contract should be managed going forwards.

Responsibility:

Director of Operations – Facilities and Project
Director for Hub Major Initiatives with the support of the RIE Commercial Team and Facilities Assurance Team

Target Date:

August 2021

Finding 2 –There is not a clear process in place for the review and approval of invoices	High
<p><u>Background</u></p> <p>As part of the Service Agreement, Consort provide a range of services on behalf of NHS Lothian. These services have both fixed and variable costs and as such are invoiced in accordance with fixed costs previously agreed or in line with an agreed calculation for variable costs.</p> <p>Invoices are sent by Consort to NHS Lothian for the attention of a Facilities Management Accountant who then seeks approval over the approval of invoices. Approval should be given from the Trust Representative as named in the agreement or any individual with delegated authority per the agreement after a review of the costs charged has been completed. The Trust Representative has historically been the Director of Operations – Facilities, with this responsibility changing to the Director of Finance in November 2020.</p> <p><u>Observation and Risk</u></p> <p>We tested a sample of 38 invoices, both fixed and variable costs pertaining to a variety of services, the testing results are shown in Appendix 1. Note that this sample related to invoices prior to November 2020, where the Trust Representative changed. We were able to see approval for 13% of invoices sampled being 5 out of those selected for testing. This approval was given via email confirmation, it is possible other invoices have been approved in this way, although this was not retained and without evidence of the approval this is not certain. The total invoice value tested was £84,461,943 and total value without evidence of approval was £57,095,949. We also noted that of the 5 with documented approval, the approver was different each time.</p> <p>Additionally, we were not provided with a scheme of delegation for the approval of invoices detailing who has authority to approve invoices and the corresponding value they are allowed to approve. Therefore, we have been unable to determine if those who approved the invoices were in line with their authorities.</p> <p>There is no set process for approving invoices received from Consort, by way of a standard operating procedure or documented process setting out what should be done when an invoice from Consort is received. The results from testing shows the procedure followed is not consistent and that documentation of the approval is not always retained. There is a risk that NHS Lothian are making payments for invoices which have not been approved or checked fully against the contract, therefore, may be incorrect.</p> <p>For example, in one invoice in our sample with a value of £42,300 did not have appropriate back up evidence to support its value. The invoice related to a two-tier workforce agreement cost which was agreed with SG for low paid workers. The supplier, ENGIE, invoice Consort and then Consort recharge to NHS Lothian. This invoice did not include the ENGIE invoice as back up, therefore the appropriate evidence was not available. It is recognised that with a more robust process for reviewing invoices this would have been noted and sufficient evidence sought for its approval.</p>	

Our testing demonstrates the inconsistency in the review of invoices to ensure NHS Lothian are being charged in line with the project agreement. The risk being that by failing to review invoice charge calculations, NHS Lothian fail to detect overcharging of key services.

Recommendation

A process for review and approval should be documented in a standard operating procedure (SOP) to clearly set out how each invoice type should be reviewed, who is responsible for approving the invoice types and how this approval process is evidenced. Approval via email confirmation is sufficient as a control, however, these confirmations must be filed/retained as evidence of the approval.

NHS Lothian now have in place a matrix showing the newly agreed Trust Representative and delegated officers, which should feed into any documented process for approval and review, however, this should be updated to include the value each delegated officer has authority for approving.

Management Response

NHS Lothian recognises the wider inconsistency in our review of invoices which may put us at risk of not being charged in line with a project agreement. As reported in the audit report a mechanism for verifying and recommending payment has now been developed. This is captured within responsibility matrix. Due to the values of the payments, the individuals responsible for payment will align with our FSI. A new scheme of delegation that includes the commercial team will require to be developed and implemented.

This will take the form of raising an internal PO that can be formally signed off. We would work closely with our finance department to ensure they raise a Procurement order. The invoice provided by Consort will also be signed off by the responsible officers, as is the case with current PA invoices, e.g. minor works additional works orders, The Unitary payment invoices will be validated by the PFI commercial manager.

Management Action

A wider corporate objective to work collaboratively with Finance Directorate to ensure the development of an internal process to raise an internal PO for all aspects of invoicing within the PA. This will be a critical early task for the new Contract Management Function, with discussions already underway to improve this.

A scheme of delegation- which will include the value each delegated officer has authority for approving- will also be prepared, approved and implemented.

Responsibility:

Director of Operations – Facilities and Project Director for Hub Major Initiatives with the support of the Finance Commercial Team and Facilities Assurance Team

Target Date:

July 2021

Finding 3 – Expectations of invoice amounts should be set and any exceptions to invoices received investigated	High
<p><u>Background</u></p> <p>As noted above, the services provided by Consort have both fixed and variable costs and are invoiced in accordance with fixed costs previously agreed or in line with an agreed calculation for variable costs.</p> <p><u>Observation and Risk</u></p> <p>Discussions with management confirmed NHS Lothian generally do not set an expectation for the charges due from Consort. Without a clear expectation, there is no basis upon which to review the invoices as they are received. The following examples were identified through our observations and testing:</p> <ol style="list-style-type: none"> 1. Ancillary Services, Facilities Usage, Facilities Services, Facilities Maintenance – Base prices were agreed in the original Project agreement and subsequently updated within Supplementary Agreement one (SA1) and Supplementary two (SA2). Invoices also include fixed costs for contracts/works which are reflected within the individual works agreements. Each quarterly invoice has over 20 different agreements from which the base prices are taken, there is no central documentation of base prices and it was therefore difficult to determine if these were correct. 2. Facilities energy - It is noted in SA1 that “No less than 20 business days prior to the beginning of each energy contract year after the first energy contract year (2007), Service Co. shall provide to the Trust a calculation of the estimated Energy Volume for that energy contract year and such information as the Trust reasonably request to support the calculation”. However, when we requested the most recent energy prices/agreement, this could not be provided. Management, therefore, do not have this to refer to when checking invoices against the most recent agreed prices. 3. Project related work – Invoices are received periodically as work progresses. It is unclear whether invoice charges are checked against the agreed scope of the work or percentage completion of work and more specifically checked to ensure the charges do not knowingly run over the original quotation. We noted one instance where there was a VAT charge related to project TAWO 200 (Invoice number 567174) while the feasibility study suggests VAT should be excluded from charges. This represents an overcharge of £4,554.02. 4. Patient meals – We could not obtain evidence that a review of every meal invoice was completed. Management noted that there were discrepancies in these invoices, in May 2020 and as a result completed review of the charges against expectation. While on this occasion, the discrepancies were followed up, without a review there may be further unnoticed errors leading to overcharges. 	

Recommendation

Incorporated into the updated process for reviewing invoices should be the requirement to check invoice amounts against supporting documentation, such as pricing agreements or occupancy rates (for patient meals) or other relevant information. Any discrepancies should be investigated prior to the payment of invoices, with any large value discrepancies requiring secondary approval, as determined by the scheme of delegation.

Management Response

We note the uniqueness of a number of invoices referenced in this report and acknowledge the need for an established control system to identify and respond to these. This will be evolved via the dedicated commercial and operational resource which has been established at the RIE.

Management Action

We will introduce a process by where supply chain invoices are requested for such unique projects. This will be sure to reflect a process for reviewing invoices to check invoice amounts against supporting documentation, such as pricing agreements or occupancy rates (for patient meals) or other relevant information. Any discrepancies will be investigated prior to the payment of invoices, with any large value discrepancies requiring secondary approval, as determined by the scheme of delegation. We will also update the scheme of delegation to introduce more control for UoE projects and projects that sit out with the Normal PA considerations.

Note that this process is already underway and has resulted in a number of discrepancies leading to refunds from Consort.

Responsibility:

Director of Operations – Facilities and Project
Director for Hub Major Initiatives with the
support of the Finance Commercial Team

Target Date:

August 2021

Finding 4 – Payment of invoices needs to be balanced against the 10-day target	High
<p><u>Background</u></p> <p>The Scottish Government ('SG') have a target 10-day payment terms for all health authorities. The SG prompt payment policy requires that all suppliers' invoices for goods and services or works construction contracts not in dispute are paid within the terms of the relevant contract, however, should be considered subject to the Scottish Government 10 working days target. The Scottish Government aims to pay 100% of invoices, including disputed invoices once the dispute has been settled, on time in these terms.</p> <p><u>Observation and Risk</u></p> <p>Through our discussions with management, we noted that the 10-day payment terms was quoted as impacting the proper review and approval of invoices in advance of payment.</p> <p>However, the Scottish Public Finance Manual states that the obligation to pay should arise when the work has been completed satisfactorily and validated in accordance with the requirements of the main contract, and there was no obligation to pay if an invoice was in dispute although the dispute of any invoice should be discussed promptly with the service provider.</p> <p>We, therefore, note that without an efficient process for reviewing invoices and strictly adhering to the 10-day payment terms there is a risk that payments are made for invoices which are incorrect or where the work has not been completed or validated in accordance with the contract. If NHS Lothian later wanted to dispute an invoice, they would be restricted in doing so, having already made payment.</p> <p><u>Recommendation</u></p> <p>The payment of invoices needs to be balanced against the 10-day payment target and not strictly adhered to before the proper review and approval of invoice payment.</p> <p>We recognise that implementing a process for the review and approval of invoices and setting expectations for invoices received (as discussed in Finding 2 and 3) will result in a more efficient approval process, however, this should not be rushed to meet the 10-day target. Invoice should not be approved for payment before NHS Lothian is satisfied that work has been completed in line with expectations.</p> <p><u>Management Response</u></p> <p>NHS Lothian welcome the recommendations and concur with the view on requiring balancing the payment of invoices against the 10-day payment target and not strictly adhering to this target before the proper review and approval of an invoice payment is made.</p>	

We also recognise that due to Clause 23 (schedule 17) in our contract with Consort if we wanted to dispute an invoice, we may be restricted in doing so, as we would have already made payment in advance as per the contract agreement.

Management Action

We will ensure the 10-day target principle is part of the evolving commercial and operational function at the RIE. We will endeavour to meet the 10-day target but recognise the need for adequate scrutiny, as described within management's response at Finding 3.

We also acknowledge the challenges described by our management teams and this will inform the process evolving via the commercial and operational function.

Responsibility:

Director of Operations – Facilities and Project
Director for Hub Major Initiatives with the
support of Finance, Commercial and
Operational RIE teams

Target Date:

August 2021

Finding 5 – Document Management and approval of contract changes requires improvement	Medium
<p><u>Background</u></p> <p>The contract between Consort Co. and NHS Lothian is complex. An original Project Agreement was drawn up with several attached schedules noting prices, use of indexation etc. Over time changes to charges were agreed via supplementary agreements, formal letters and other communications, the changes are evidenced by signatures from both parties.</p> <p>For a contract of this size and complexity it would be common to have a central place where all related documentation is stored. Information filed and stored would include the original project agreement, agreement amendments, PRC meeting minutes to evidence decisions made, disputes, performance scores and all correspondence between NHS Lothian and Consort.</p> <p><u>Observation and Risk</u></p> <p>We have been unable to confirm that there is sufficient document management of the contract and supporting schedules and amendments. Project agreements and subsequent agreements such as SA1 and SA2 are not easily accessible by those involved in the management of the contract. There is no register of variations or similar documents which capture changes made to the agreement including information on prices and charges. As a consequence, management are unable to monitor and review the accuracy of prices as demonstrated in our testing of the invoice review and approval process.</p> <p>Where contract documentation is not clear and NHS Lothian do not have an understanding and log of changes made, they will be unable to hold Consort accountable for errors in invoicing, over charging, etc.</p> <p>There is a risk that NHS Lothian are being over charged for services and/or are not being charged in line with the agreement. Where management do not have sufficient documentation of the agreement and subsequent changes, challenging Consort on compliance with the agreement will be difficult.</p> <p><u>Recommendation</u></p> <p>All project agreements and subsequent agreements such as the SA1 and SA2 documents should be filed and easily accessible. A variations register should be kept which captures all the changes in the agreement as they occur and which can be referred to and understood by someone not familiar with the contract, this will help the overall management of the contract and ensure there is no reliance on the experience and knowledge of one or a few individuals.</p> <p>This register should be back-dated to the beginning of the contract or at least consider most up to date documentation covering all aspects of the contract.</p> <p>Additionally, it should be considered who is responsible for approving any variations to the contract, with this documented in the scheme of delegation (including approval limits) and this approval documented.</p>	

As this contract has run over several years, has involved many members of staff and is likely to continue in this way going forward, it is essential to keep central documentation of agreements, agreement amendments, correspondence, disputes, performance scores, PRC meeting minutes etc.

Management Response

NHS Lothian recognises there is a potential knowledge management (i.e. sufficient document management) issues and we will use the findings in this report as an opportunity to ensure the shared drive currently used contains the following:

1. All SA's, and titles,
2. All TWO's sequential numbers
3. All, Minor works orders, and sequential numbers,
4. Maintains a schedule of changes and cost indexation,
5. Records of key letters and correspondence eg variation to Board representatives.
6. The Project agreement, and room data sheets.
7. Car parking correspondence/ amendments.

(Via its service it also has access to all PRC, and PLC minutes, Service co. Health and safety meetings, Board additional works meetings.)

Management Action

We do recognise this document set requires to be more widely available (e.g. accessible by those involved in management of the contract) and more in line with an appropriate documentation control system covering all aspects of the Contract and a comprehensive communications log.

The register of documents will also be reviewed to ensure this covers up to the beginning of the contract.

The PFI commercial manager and Facilities lead will work to establish an index of contract documents and arrange to populate the various sections. We will discuss with Consort a bulk transfer of Documents deemed to be the responsibility of Service co to administer, (captured in PA) and place these on the document control system, including but not limited to PRC minutes, PLC minutes, other regular meetings, communications around dispute processes and outcomes, annual SPM schedules condition surveys, and Consort investment programs. This work will form a key action for the Contracts Management Function.

Responsibility:

PFI commercial/operational manager and facilities

Target Date:

August 2021

Finding 6 – Opportunities to work with Consort to improve the timing of invoices, allowing for better forecasting	Medium
<p><u>Background</u></p> <p>As noted above, the services provided by Consort have both fixed and variable costs and are invoiced in throughout the year. In 2019/20, there were 286 invoices processed relating to the contract.</p> <p><u>Observation and Risk</u></p> <p>We have considered the multiple service elements and timing of invoices over a period of 18 months through review of related invoices. This testing has identified that the timing of invoices although consistent for some service elements, is inconsistent for others. This irregularity could result in the inability to forecast costs relating to this contract and multiple invoices highlights an increased risk of fraud and error to NHS Lothian and difficulty to estimate the value of invoices being recieved. Some examples of identified in our review include:</p> <ol style="list-style-type: none"> 1. Other payments to other organisations – These are project related invoices with work on the project ongoing and therefore costs are expected to span over the lifetime of the project. Analysis of the number of invoices received each month and considering the POs they relate to, we found that in a given month up to 15 invoices were issued in relation to one purchase order. There is an opportunity to streamline this. 2. Other Property Maintenance – Property maintenance work orders are grouped with several being attached to each invoice received by NHS Lothian. However, on analysis of the invoices received over an 18 month period we note the number of invoices being received in a given month range from 1 to 10. There is an opportunity to group these to 1 invoice per month, provided controls are in place to confirm work has been completed satisfactorily for all work orders. 3. Patient Meals – Per the agreement, NHS Lothian should receive on a monthly basis 2 invoices relating to patient meals. One specifically relating to meals and the other to ward issues. This was not consistent over the period assessed with 8 separate invoices being received in the second month of 2019/20 for example. 4. Rent – We noted a change in pattern from 2019/20 to 2020/21 with regards to the timing of billing for rent. In 2019/20 rent invoices were received in months one, three, six and nine. While in the first half of 2020/21 rent invoices were received in months two, three and five. <p>There is an opportunity for NHS Lothian to work with Consort to agree timescales for invoicing and reduce the number of miscellaneous invoices. This will result in NHS Lothian being able to better estimate the value of invoices being received, aiding the approval process, especially if there is an overall reduction in the number of invoices.</p>	

In addition to the above, we found that the way in which energy invoices are being billed could have an adverse effect on cashflows throughout the year. Energy invoices are billed at a fixed cost on a quarterly basis which is then reconciled to actual cost at year end. This year NHS Lothian had under paid for energy costs and as a result were charged an additional amount in December 2020. There is a risk that if the the year-end reconciliation is not overseen by NHS Lothian and they are, in error, not repaid for overpayments made in the year.

Overall, there is a risk that flexible or strange invoicing patterns as is the case for some services delivered by Consort could lead to an increase in invoices, making the contract more difficult to manage and increasing the chance of fraud and error

Recommendation

NHS Lothian should look to liaise with Consort to agree timescales for invoicing, where possible, and reducing the number of miscellaneous invoices for each service provided. This will allow NHS Lothian to better estimate the invoice value, reduce invoices and overall aiding the review and approval of invoices. This links to Finding 1 where we recognise there is a better opportunity for working with Consort, with appropriate oversight of the contract.

Management Response

We recognise that the timing of invoices although consistent for some service elements, is inconsistent for others and agree this is an area of focus to reduce risk. We will endeavour to improve our advance forecasting of the Project agreement and recognise our reliance on previous year expenditures and allowable RPI contract increase arrangements to help inform the financial budgeting for contract variation currently.

There will always be differences in this estimate but by collaborating and recording likely expenditure in the future we agree we will minimise this risk.

Management Action

During 2021/22 we will liaise with Consort to agree timescales for invoicing, where possible, and reducing the number of miscellaneous invoices for each service provided. This will allow us to better estimate the invoice value, reduce invoices and overall aiding the review and approval of invoices.

Responsibility:

Director of Operations – Facilities and Project
Director for Hub Major Initiatives with the
support of Finance, Commercial and
Operational RIE teams

Target Date:

December 2021

4. Internal Audit Follow-up Process

- 4.1 Approximately two weeks following issue of the final Internal Audit report, a member of the Audit Team will issue an 'evidence requirements' document for those reports where management actions have been agreed.
- 4.2 This document forms part of the follow up process and records what information should be provided to close off the management action.
- 4.3 The follow-up process is aligned with the meetings of the Board's Audit & Risk Committee. Audit Sponsors will be contacted on a quarterly basis with a request to provide the necessary evidence for those management actions that are likely to fall due before the next meeting of the Audit and Risk Committee.

5. Appendix 1 – Summary of Testing Results

Invoice Number	Value	Value appropriate?	Time period covered correct?	Application of indexation correct?	VAT treatment correct?	Evidence to support invoice sufficient?	Correct application of contract procedure?	Evidence of approval?
566783	120,930.72	Yes	N/A	N/A	Yes	Yes ¹	No clear processes are in place which ensure correct application of contract procedure as demonstrated in Finding 2. This could therefore not be considered in our testing.	No
566811	14,720.64	Yes	N/A	N/A	Yes	Yes ²		No
566820	70,906.71	Unable to confirm	Yes	Yes	Yes	Yes ³		No
566822	13,446,099.09	Unable to confirm	Yes	N/A	Yes	Yes ³		No
566855	19,905.10	Unable to confirm	Unable to confirm ⁴	N/A	Yes	Yes ⁵		No
566878	70,906.71	Unable to confirm	Yes	Yes	Yes	Yes ³		No
566882	42,300.19	Yes	N/A	N/A	Yes	No ⁶		No
566885	257,557.97	Yes	Yes	Yes	Yes	Yes ⁷		No
566889	4,710.90	Unable to confirm	N/A	N/A	Yes	Yes ²		No
566901	257,661.52	Yes	Yes	Yes	Yes	Yes ⁷		No
566913	13,446,099.08	Unable to confirm	Yes	Yes	Yes	Yes ³		Approved by Head of Business Support and Asset Management on 05/06/19 ⁸
566928	157,700.56	Yes	N/A	N/A	Yes	Yes ⁹		No
566946	257,034.68	Yes	Yes	Yes	Yes	Yes ⁷		No

¹ Support to invoice is a Service Order Request signed by George Curley

² Support to invoice is an additional works financial report outlining project agreed costs, costs to date, value already charged and outstanding charges

³ Support to invoice is a calculation of all advanced billing charges

⁴ This invoice related to management fees, paid in advance of the period detailed in the invoice. We were unable to confirm to the contract that this charge is payable in advance

⁵ Support to calculation is a calculation from Consort on helpdesk income

⁶ This invoice was relates to a two tier workforce agreement cost which was agreed with SG for low paid workers, ENGIE invoice Consort and then Consort recharge to NHS Lothian. This invoice did not include the ENGIE invoice as back up, therefore the appropriate evidence was not available

⁷ Support for meal charges is a meal orders report which has been taken from the system used by ENGIE to book and distribute meals to patients

⁸ Cannot confirm if this was appropriate as no scheme of delegation to refer to

⁹ Support for two tier workforce payment is an invoice form ENGIE to consort to back up the recharge Consort is making to NHS Lothian.

566963	82,664.59	Yes	N/A	N/A	Yes	Yes ²	No
566966	6,455.08	Yes	Yes	N/A	Yes	Yes ¹⁰	No
566989	48,459.62	Yes	Yes	Yes	Yes	Yes ¹¹	No
566995	32,638.04	Yes	N/A	N/A	Yes	Yes ²	No
566999	17,774.05	Yes	N/A	N/A	Yes	Yes ¹⁰	No
567013	13,446,099.09	Unable to confirm	Yes	Yes	Yes	Yes ³	No
567046	53,039.54	Yes	N/A	N/A	Yes	Yes ⁹	No
567072	58,326.36	Yes	Yes	Yes	Yes	Yes ¹¹	No
567083	11,124.12	No	N/A	N/A	Yes	Yes ²	No
567085	116,505.65	Yes	N/A	N/A	Yes	Yes ²	No
567102	14,592,788.24	Unable to confirm	Yes	Yes	Yes	Yes ³	No
567132	10,664.10	Yes	N/A	N/A	Yes	Yes ²	No
567174	27,324.14	No	N/A	N/A	No	Yes ²	No
567192	13,654,314.63	Unable to confirm	Yes	Yes	Yes	Yes ³	No
567212	30,100.38	Yes	N/A	N/A	Yes	Yes ¹²	Approved by Programme Director on 24/03/20 ⁸
567240	33,147.77	Yes	Yes	N/A	Yes	Yes ¹⁰	No
567263	58,866.74	Yes	Yes	Yes	Yes	Yes ¹¹	No
567289	3,078.36	Unable to confirm	Unable to confirm ¹³	Unable to confirm	Yes	Yes ¹⁴	No
567290	13,654,194.63	Unable to confirm	Yes	Yes	Yes	Yes ³	Approved by Accounts Payable Team Leader on 30/06/20 ⁸
567336	48,313.85	Yes	Yes	Yes	Yes	Yes ¹¹	No

¹⁰ Support for invoice is a series of minor works order formal quotations signed by the individual budget holders

¹¹ Support is a spreadsheet calculation completed by Consort showing the issues of food and drink to wards out with the normal meals

¹² Support is for Portering Services which is invoiced to Consort and recharged to NHS Lothian, original invoice from Dentons supports charge

¹³ This invoice related to rent, paid in advance of the period detailed in the invoice. We were unable to confirm to the contract that this charge is payable in advance.

¹⁴ Support is a rent calculation provided by Consort showing annual base fee, indexation and quarterly payment fee

567352	18,126.14	Yes	N/A	N/A	Yes	Yes ¹⁰		No
567363	12,630.29	Yes	N/A	N/A	Yes	Yes ¹⁰		No
567380	43,174.24	Yes	N/A	N/A	Yes	Yes ²		No
567389	3,078.36	Unable to confirm	Unable to confirm ¹³	Unable to confirm	Yes	Yes ¹⁴		Approved by Contract Manager on 21/08/20 ⁸
567403	232,521.65	Yes	Yes	Yes	Yes	Yes ⁷		Approved by Asset Development Director on 11/09/20 ⁸

6. Appendix 2 – Staff Involved and documents reviewed

Staff Involved:

- Director of Operations, facilities
- Site Manager Facilities RIE - PFI Contracts & NHS Lothian Security Lead
- Management Accountant, Estates
- Business Partner, Innovations
- Head of Business Services and Asset Management
- Monitoring Officer

Documents Reviewed:

- 38 invoices and attached back up including
 - Calculations of Costs
 - Minor Work Order Forms
 - Project Summary Charges
 - Evidence of Charges from ENGIE
- Email Approval of 5 Invoices
- Project Agreement and Related Schedules
- Supplementary Agreement one (SA1)
- Supplementary Agreement two (SA2)
- Anne Rowling Extension Cost Estimate Report
- Chancellor's Building Operations Cost Estimate Report No.2
- TAWO 200 Neonatal Feasibility Cost Plan
- Emergency Department Emergency Works Cost Plan and Initial Budget
- Project Related Works
 - Feasibility Study Reports
 - Cost Plans
 - Supplementary Agreements
- Scottish Government Low Paid Workers Initiative Spreadsheet
- Service Change Log Received from IML
- TAWO Log Received from IML
- Additional Works Review Meeting Minutes, Nine Weekly Minutes
- Historic Cost Trackers for Past Projects
- University Back Letter
- Performance Review Committee Meeting Minutes, Three
- Facilities Scorecard for September 2020
- Catering Scorecard for December 2020
- PPP Contract Management Task Allocation
- Letter Confirming Change to Health Board Representatives

7. Appendix 3 - Definition of Ratings

Findings and management actions ratings

Finding Ratings	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
High	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Medium	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
Low	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
No assurance	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
Limited assurance	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	<p>This may be used when:</p> <ul style="list-style-type: none"> There are known material weaknesses in key control areas. It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
Moderate assurance	<p>The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied.</p> <p>There remains a moderate amount of residual risk.</p>	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
Significant assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable.</p> <p>The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>