

Internal Audit



Financial Controls

November 2020

Internal Audit Assurance assessment:

Objective One	Objective Two	Objective Three	Objective Four	Objective Five
Significant Assurance	Significant Assurance	Significant Assurance	Moderate Assurance	Significant Assurance

Timetable

Date closing meeting held: No meeting held, client responded directly to draft report

Date draft report issued: 6 November 2020

Date management comments received: 6 November 2020

Date Final report issued: 9 November 2020

Date presented to Audit and Risk Committee: 23 November 2020

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1. Introduction

- 1.1 At its meeting on the 22 June 2020, the Audit & Risk Committee considered NHS Lothian's approach to 2020/21 internal audit planning and the key areas of internal audit focus. The paper recognised the ongoing Covid-19 global pandemic and the impact on NHS Lothian in the short as well as longer term as NHS Lothian and the wider NHS in Scotland adapt.
- 1.2 Audit Scotland in its recent Covid-19 publication (Guide for Audit and Risk Committees) highlighted the importance of internal audit and internal controls, and consideration of how these have been impacted by Covid-19 and what assurance management and audit committees in particular can seek. In addition, the annual National Fraud Initiative Report produced by Audit Scotland highlights remote working and potential increase in fraud. In particular how controls have been maintained, including segregation of duties, and the move to electronic approvals. Therefore there may be an increased risk of fraud and error in this time period.
- 1.3 Therefore it is essential that NHS Lothian has robust arrangements around their internal control framework, including an awareness of the changed control environment due to Covid-19 and potential increased risk and/or exposure and that staff are made aware of fraud risks and are provided with guidance to mitigate against fraud, overpayment, or errors
- 1.4 Alongside the risk there may be wider opportunities to redesign and consider future controls.

Scope

- 1.4 The audit reviewed the effectiveness of any changes made to internal controls, such as thresholds for expense approvals, any manual controls established, and underlying business as usual transactions to allow NHS Lothian to procure goods, services and works during the time of the pandemic. We also considered opportunities to re-design the control framework without an increase in risk.

Acknowledgements

- 1.5 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 adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 3.

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
1	Changes in internal controls processes and policies as a result of Covid-19 have been documented or approved for appropriateness against mitigating fraud risk	Significant Assurance	-	-	-	-
2	Internal control changes have been communicated to relevant teams (Finance, Procurement & Senior Managers)	Significant Assurance	-	-	-	-
3	Segregation of duties controls within NHS Lothian systems are operating as expected and authorisation levels are correct and being followed	Significant Assurance	-	-	-	-
4	Goods and services are purchased through approved national frameworks, with accurate information prepared and reported on what is being bought by whom and for what price.	Moderate Assurance	-	-	1	-
5	Reporting of procurement trends have been undertaken to ensure that	Significant Assurance	-	-	-	-

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
	any increase of expenditure is appropriate to the Covid-19 response					
6	Anomalies or unauthorised spend (purchase and limits) and any potential misuse or fraud has been reported to the Board's Fraud Liaison Officer.	Significant Assurance	-	-	-	-
Total			-	-	1	-

Conclusion

- 2.2 NHS Lothian has maintained good internal controls over its procurement arrangements during the Covid-19 response. The Board's SFIs and Scheme of Delegation and remained in place remained in place - supported by the automated approval process within PECOS.

Main findings

- 2.3 There have been no changes made to the operating procedures and control framework within Procurement and Finance in light of Covid-19 and the increased reliance on remote working. The electronic systems employed by these departments (PECOS and eFinancials) have been able to ensure that the approval processes continue to be applied.
- 2.4 The PECOS procurement system requires that all purchase orders are raised, approved and receipted prior to payment. There is appropriate segregation of duties, including adhering to the Board's delegated authority limits, recorded within the Approved Signatories Database (ASD).
- 2.5 The Board's Standing Financial Instructions permit the waiving of tenders where there is an urgent need of goods or services and where a tender exercise would incur too much of a delay. NHS Lothian has not reported an increase in tender waivers due to the Pandemic and the provision of PPE and other goods and services.
- 2.6 When NHS Lothian staff wish to add a supplier to the electronic purchasing system they must contact Procurement, and provide a justification for adding the supplier. Procurement will carry out checks on the validity and appropriateness of the supplier. Staff within Accounts Payable also perform their own checks on the supplier, including confirming independently the account details.
- 2.7 The Procurement department has created a tracker which sets out expected and actual savings and benefits related to individual purchases and contracts. The document is designed to help determine if expected savings and benefits will be realised. Additionally, Procurement regularly contribute to Finance department KPIs, where reporting is made on several areas,
- 2.8 The Board's Fraud Liaison Officer (FLO) circulates to relevant finance staff intelligence alerts received from Counter Fraud Services. There has been one instance of fraud identified and appropriate action taken to prevent its reoccurrence.
- 2.9 We tested a sample of 24 purchase orders raised between the 1 May and 30 September of this year, examining the requester, approver and receptor of each, in addition to the corresponding cost centres and delegated authority limits recorded in the Approved Signatory Database. Additionally, seven of 44 new suppliers added to Pecos since May 2020 were reviewed to confirm that appropriate checks on their validity had been completed.

2.10 We identified one improvement opportunity during this review:

Medium Rating

- Staff are not routinely recording within Finance Process Manager (FPM) that reasonable checks have been carried out when approving new suppliers or amendments to existing suppliers.

Further details of this point are set out in the Management Action Plan.

3. Management Action Plan

Control objective 1: Changes in internal controls processes and policies as a result of Covid-19 have been documented or approved for appropriateness against mitigating fraud risk.

We identified no significant weaknesses in relation to the above control objective.

There have been no changes made to the operating procedures and control framework within Procurement and Finance in light of Covid-19 and the increased reliance on remote working. The electronic systems employed by these departments (PECOS and eFinancials) have been able to ensure that the approval processes continue to be applied.

Control objective 2: Internal control changes have been communicated to relevant teams (Finance, Procurement & Senior Managers).

We identified no significant weaknesses in relation to the above control objective.

There have been no changes made to the operating procedures within Procurement and Finance in light of Covid-19 and the increased reliance on remote working. The electronic systems employed by these departments (PECOS and eFinancials) have been able to ensure that the approval processes continue to be applied.

Control objective 3: Segregation of duties controls within NHS Lothian systems are operating as expected and authorisation levels are correct and being followed

We identified no significant weaknesses in relation to the above control objective.

The PECOS procurement system requires that all purchase orders are raised, approved and receipted prior to payment. There should be appropriate segregation of duties, including adhering to the Board's delegated authority limits, recorded within the Approved Signatories Database (ASD).

We tested a sample of 24 purchase orders raised between the 1 May and 30 September of this year and identified no instances where the same individual raised and approved an order.

Similarly, no issues were noted for the same transactions when comparing the value of the purchase order against the approval limits and cost centres within the Approved Signatory Database.

NHS Lothian will only process and pay an invoice once the goods or services have been received. For orders raised through PECOS, there is a function to 'receipt' the goods, which then allows the invoice to be processed for payment through the eFinancials system.

Where no purchase order has been raised, the invoices are signed off by the appropriate budget holder as approved in order for payment to be processed.

<p>Control objective 4: Goods and services are purchased through approved national frameworks, with accurate information prepared and reported on what is being bought by whom and for what price</p>	
<p>Finding 1: There is no functionality within Finance Process Manager to record that bank account checks have been completed.</p> <p>Associated risk of not achieving the control objective: It cannot be adequately confirmed that new or amended bank details have been checked.</p>	<p>Medium</p>
<p><u>Background</u></p> <p>Since May 2020 all goods and services bought during the pandemic have been subject to the same procurement governance. With national frameworks and local contracts used where appropriate.</p> <p>When NHS Lothian staff wish to add a supplier to the electronic purchasing system they must contact Procurement, and provide a justification for adding the supplier. Procurement then perform checks to confirm that there is not an existing contracted supplier who can provide the same goods and services, and obtain information from the supplier (for example bank details).</p> <p><u>Observation and Risk</u></p> <p>Staff within Accounts Payable will then perform their own checks on the supplier, including confirming independently the account details. 44 new suppliers have been created on eFinancials since 1 April 2020. A sample of seven was selected for testing to confirm that there had been an independent check on the supplier's bank account details.</p> <p>However, while there is functionality within Finance Process Manager (FPM) for the individual approving the new details to record that the bank information has been checked. This is not currently being applied. Until now Finance staff have developed a spreadsheet separate from the finance system to record this, however it would be more efficient and appropriate if the information were to be recorded alongside the approval with FPM.</p> <p>There is a risk that, under review, it cannot be adequately confirmed that new or amended bank details have been checked.</p>	
<p><u>Recommendation</u></p> <p>Management should instruct staff to record confirmation of their banking checks within the relevant section of FPM.</p>	
<p><u>Management Response</u></p> <p>Management acknowledge this recommendation and have only recently become aware of this</p>	

function.

Management Action

Staff will now add their name to the field to confirm that the bank details have been independently checked.

Responsibility:

Head of Financial Control

Target date:

Immediately

Control objective 5: Reporting of procurement trends have been undertaken to ensure that any increase of expenditure is appropriate to the Covid-19 response

We identified no significant weaknesses in relation to the above control objective.

The Procurement department has created a tracker which sets out expected and actual savings and benefits related to individual purchases and contracts. The document is designed to help determine if expected savings and benefits will be realised.

Additionally, Procurement regularly contribute to Finance department KPIs, where reporting is made on several areas, including:

- Invoices paid from purchase orders
- Cumulative National Distribution Centre spend
- Contract activity (procurement through quick quotes or notices on portal)

In response to the pandemic, Procurement have also developed a Covid-19 PPE and essential supplies risk register, which has been used for the receipt, distribution and monitoring of PPE stock.

Covid-19 related expenditure is subject on ongoing review by staff within finance and this area, along with the regular returns made to the Scottish Government is subject to a separate internal audit review – Tracking Covid Expenditure.

Control Objective 6: Anomalies or unauthorised spend (purchase and limits) and any potential misuse or fraud has been reported to the Board's Fraud Liaison Officer

We identified no significant issues in relation to this control objective.

In June of this year, an incidence of fraud was reported to the Board's Fraud Liaison Officer (FLO). Amendment of bank account details resulted in £12,233.20 being paid into an incorrect and unknown bank account.

The process for changing supplier bank details is:-

1. Supplier must notify the Board in writing, on headed paper and signed by Director, Finance Manager of new bank details.
2. Accounts Payable clerk will contact supplier via telephone, using a number from a previous invoice.
3. Accounts Payable clerk completes request on finance system and adds note to state that bank details were verified by XXXX on date.
4. The Accounts Payable team leader checks backup documentation and that verification has been obtained before authorising amendment.
5. NSI system team will action the amendment.

The fraud occurred due to the fact that step 2 had not been followed.

A Counter Fraud Services (CFS) referral was completed and sent to CFS. Additionally, Treasury contacted NHS Lothian's bank and the receiving bank advising them of the fraud.

Management have also taken the following actions:

- Communication sent out to all Accounts Payable and Procurement staff advising them of this incident and reminding staff of the correct procedure.
- Communication sent out to all Finance Staff advising them of this incident and reminding all staff to be aware of fraudulent activities.

The Board's FLO also circulates to relevant finance staff intelligence alerts received from CFS. Seven have been received and distributed during 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.

Appendix 1 – Staff Involved and Documents Reviewed

Staff Involved

- Head of Financial Control
- Financial Controller
- e-Procurement Manager
- Procurement Planning Manager
- Financial Accountant
- Finance Manager (O2C) / Fraud Liaison Officer

Documents Reviewed

- Operating and Desktop Procedures
- BOXI reports providing data on purchase orders raised and invoices paid
- Reports listing new suppliers added since April 2020
- Authorised Signatories Database
- Finance Department KPIs and month-end reports

Appendix 2 - 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	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. There remains a moderate amount of residual risk.	<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>