

# Internal Audit



## Financial Controls

June 2019

### Internal Audit Assurance assessment:

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

Objective Seven	Objective Eight	Objective Nine	Objective Ten	Objective Eleven
Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance

Objective Twelve	Objective Thirteen	Objective Fourteen	Objective Fifteen	Objective Sixteen	Objective Seventeen
Significant Assurance	Moderate Assurance	Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance

### Timetable

Date closing meeting held: 31 May 2019

Date draft report issued: 3 June 2019

Date management comments received: 4 June 2019

Date Final report issued: 5 June 2019

Date presented to Audit and Risk Committee: 17 June 2019

This report has been prepared solely for internal use as part of NHS Lothian's internal audit service. No part of this report should be made available, quoted or copied to any external party without Internal Audit's prior consent.

## Contents

1. Introduction.....	1
2. Executive Summary .....	2
3. Management Action Plan .....	7
Appendix 1 – Staff Involved and Documents Reviewed .....	27
Appendix 2 - Definition of Ratings.....	28

## 1. Introduction

- 1.1 Financial controls within the organisation are vital in helping to ensure that there is compliance with legislation, that financial reporting is accurate and timely, and that the risk of fraud is reduced. In addition, the effective production of financial information is important in providing internal and external customers with complete, accurate, and timely information which can be used for informed decision making.
- 1.2 As part of our rolling internal audit programme we consider core financial controls on a rotational basis ensuring coverage of controls at least once over a 5 year period. Based on our rotational plan we have focused on the design and operation of controls over the three areas listed in 1.4 below.
- 1.3 The areas which will be covered by this review are:
- Income (excluding the Scottish Government's Revenue Resource Limit).
  - Accounts Payable
  - Payroll Services

### Scope

- 1.4 The audit reviewed the effectiveness of the controls in place for Payroll Services, Accounts Payable, and Income (excluding the Scottish Government's Revenue Resource Limit).

### 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 tables 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
<b>Accounts Payable</b>						
1	NHS Lothian has agreed policies and procedures in place for expenditure and payables.	Significant Assurance	-	-	-	-
2	All purchases are authorised in advance of the order being placed with the supplier.	Significant Assurance	-	-	-	1
3	All expenditure is verified, via a goods received note or equivalent, prior to the order being placed for payment.	Significant Assurance	-	-	-	-
4	The correct suppliers are paid the correct amount once and in line with invoice payment terms.	Significant Assurance	-	-	-	-
5	Expenditure is completely and accurately reflected in the accounting system.	Moderate Assurance	-	-	1	-
6	Creditors are paid promptly and NHS Lothian's performance against the SGHSCD Payment Policy is regularly monitored and reported.	Significant Assurance	-	-	-	-

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
<b>Income</b>						
7	The Board has prepared detailed procedures that comply with the Boards Standing Financial Instructions.	Significant Assurance	-	-	-	-
8	Debtors are set up appropriately and all income generating activities are identified, accurately recorded and subsequently invoiced on a timely basis.	Significant Assurance	-	-	-	-
9	Procedures are followed in ensuring that all invoices are paid and the income is correctly identified, accounted for and reflected in the ledger.	Significant Assurance	-	-	-	-
10	The extent of debt is minimised and there is prompt follow up of overdue accounts, with appropriate authorisation over debt write-offs.	Significant Assurance	-	-	-	2
11	Income and receivables data is regularly reported to the Finance & Resources Committee.	Significant Assurance	-	-	-	-

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
<b>Payroll</b>						
12	Employee standing data is complete and accurate.	Significant Assurance	-	-	-	-
13	Changes to employee standing data are authorised.	Moderate Assurance	-	-	1	-
14	Payment to employees are complete and timely.	Significant Assurance	-	-	-	-
15	Additional payments to employees, including overtime payments, are accurate and authorised.	Significant Assurance	-	-	-	-
16	Reconciliations are performed for data transfers from SSTS and eExpenses to ePayroll.	Significant Assurance	-	-	-	1
17	Travel and subsistence payments are made in line with NHS Lothian policies and procedures.	Significant Assurance	-	-	-	1
<b>TOTAL</b>			-	-	<b>2</b>	<b>5</b>

## Conclusion

- 2.2 Controls over the order, receipt and invoice payment processes are in the main operating effectively. However, we have noted some issues around the approving of purchase orders and the content of the Approved Signatories Database.
- 2.3 Generally a robust framework of control is in place for raising invoices, and the receipt and accounting for income. Amounts owed are regularly reviewed and debt recovery procedures are functioning adequately. Debts are written-off only after appropriate approval has been received.
- 2.4 There are appropriate controls in place within the Payroll Department, which include the requirement that all claims for expenses and other additional payments must be approved by each staff member's line manager. In addition, there are checks by Payroll to confirm that all changes to staff members' standing data have been correctly processed.

## Main findings

- 2.5 We noted a number of areas of good practice during the review. NHS Lothian uses the PECOS system for ordering more than 90% of its goods and services, which has built-in controls for ordering and receipting goods. These controls enforce authorisation at the ordering and goods receipting stages, as well as allowing efficient payment of invoices where the value of the invoice matches the order, within the agreed tolerances. Where an order has not been raised through PECOS Accounts Payable requires the invoice to be manually authorised by the relevant budget holder prior to payment.
- 2.6 Batch payment runs are approved for processing three times each week, following confirmation that checks over the completeness and accuracy of the payment run have been undertaken.
- 2.7 The Scottish Government Health & Social Care Directorate (SGHSCD) Payment Policy requires that public sector bodies aim for all invoices to be paid within ten days of receipt of invoice at the designated address. The time taken to pay each invoice (from the date of receipt) is recorded and monitored each month by senior finance staff. For April to July this financial year NHS Lothian paid 86% of its invoices within the 10 day target, with 93% of invoices settled within 30 days
- 2.8 The Financial Operating Procedures: Accounts Receivable & Credit Control meet the key requirements of the Board's Standing Financial Instructions and set out a reasonable framework for collecting income and managing debts.
- 2.9 The Accounts Receivable Team is informed about income falling due through Debtors Request Forms completed by budget holders. Accounts Receivable raise invoices and are responsible for closely monitoring outstanding debts. The Financial Operating Procedures set out parameters for issuing reminder letters and statements to debtors. Outstanding debts that exceed a certain number of days are referred to collection agencies, unless repayment plans have been agreed
- 2.10 Debts that are written-off follow the procedure within the Financial Operating Procedures. If below £20,000, the writing off of debts is authorised by the Deputy Director of Finance. If above £20,000, proposed write-offs are referred to the Audit Committee before authorisation is sought from the Scottish Government.
- 2.11 In September 2017, the Payroll Manager introduced desktop procedures for current and new staff to follow; guidance contained in the procedures includes appointment, amendments and advance payments. The procedures are due for review in October 2019.
- 2.12 System controls are in place within the ePayroll system for staff to confirm that changes to employee data and additional information transferred from SSTS and eExpenses have been checked and confirmed as accurate and appropriate.

- 2.13 Monthly and weekly payroll runs are agreed in advance with the company responsible for activating the payroll runs, with the cut-off dates for submission of SSTS data and eExpense Claims also communicated to line managers.
- 2.14 After each weekly and monthly payroll run the Payroll system generates a report which lists all staff members whose overall payment has increased or decreased by more than 25% from their previous payment. Payroll staff will then review each item on the list to confirm that the payment was valid.
- 2.15 Also, following the identification and subsequent notification to the NHS Lothian Audit & Risk Committee on the 26 November 2019, and again on the 29 April 2019 of a significant overpayment of an employee's salary, appropriate mechanisms have been put in place that ensure that the calculations relevant in this instance are subject to automatic calculations and checks.
- 2.16 We identified seven issues / improvement opportunities during this review:

Medium Rating

- An individual responsible for approving a purchase order in PECOS did not have the corresponding cost centre recorded against their entry in the Authorised Signatories Database (Finding 2).
- Changes to employee data in the ePayroll system are not subject to comprehensive checking (Finding 5).

Low Rating

- An individual responsible for approving a purchase order in PECOS is not recorded in the Authorised Signatories Database (Finding 1).
- Reminder letters are not sent to debtors in line with the relevant schedule. (Finding 3).
- Month end reconciliations are not always carried out and their checking clearly records and made available for review (Finding 4).
- The accuracy and completeness of data transferred from SSTS to the ePayroll system is not always marked in the ePayroll system as checked (Finding 6).
- Checks on 10% of the expense claims processed as part of the monthly payroll run are not being carried out (Finding 7).

Further details of these points are set out in the Management Action Plan.



### 3. Management Action Plan

**Control objective 1: NHS Lothian has agreed policies and procedures in place for expenditure and payables**

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

Financial Operating Procedures have been developed for the Accounts Payable function. They were reviewed and approved by the Head of Financial Control in May 2019

The procedures have been made available for staff through the Finance Online pages of the NHS Lothian intranet and through the Financial Services shared drive.

**Control objective 2: All purchases are authorised in advance of the order being placed with the supplier**

**Finding 1: The individual approving the purchase order is not recorded in the Approved Signatories Database.**

**Low**

**Associated risk of not achieving the control objective: NHS Lothian incurring expenditure for goods or services that it does not require.**

Background

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).

Observation and Risk

We tested a sample of 24 purchase orders raised between the 1 February and 8 May of this year and identified no instances where the same individual raised and approved an order.

However, testing identified one instance in the sample where the person approving the purchase order was not recorded within the ASD (purchase order S1381916 and value £20.02). While the approver was appropriate given their position and job title, they had been assigned delegated authority within PECOS, allowing them to approve orders in the absence of the 'main' approver recorded in the system. However, this had not been reflected in the ASD.

There is a risk that members of staff can approve purchase orders within PECOS at a value that exceeds their permitted level or for cost centres that are not under their responsibility. This could lead to NHS Lothian incurring expenditure for goods or services that it does not require.

Recommendation

Finance should undertake a comprehensive reconciliation between the ASD and PECOS to verify the consistency of user authorisation limits and cost centres.

All new users who are added to the ASD and PECOS should be counter-checked by a second member of staff to ensure that the user details have been added correctly. Evidence of this check should be retained.

Management Response

Management agree with this recommendation.

Management Action

Procurement will conduct a comprehensive reconciliation between the ASD and PECOS to

verify the consistency of user authorisation limits and cost centres. This will be carried out within the current Single PECOS Build.

Spot checks will be carried out monthly on the consistency of PECOS and ASD for new users and amendments.

Responsibility:

Head of Procurement

Target date:

30 September 2019

**Control Objective 3: All expenditure is verified, via a goods received note or equivalent, prior to the invoice being processed for payment.**

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

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.

Testing identified one purchase order (of 24 sampled) which had not been receipted in PECOS and yet had been processed for payment. Enquiries noted that this was for repairs carried out which required prompt payment and, once confirmed as completed by the department, the order had been receipted by a member of staff in Procurement.

**Control Objective 4: The correct suppliers are paid the correct amount once and in line with invoice payment terms**

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

Accounts Payable processes a payment run three times per week. Before the payment run is finalised, accounts payable staff perform checks including a review of all Non-POP invoices valued over £10k, checking of a random sample of POP invoices, and a review of duplicate payment reports to confirm that suppliers are only paid once.

The payment run is only approved by the Head of Financial Control or the Financial Controllers for processing after a Team Lead has confirmed that the various checks have been undertaken.

**Control objective 5: Expenditure is completely and accurately reflected in the accounting system**

**Finding 2: User information within PECOS does not match the Authorised Signatory Database.**

**Medium**

**Associated risk of not achieving the control objective: NHS Lothian incurring expenditure for goods or services that it does not require.**

Background

NHS Lothian maintains an Authorised Signatory Database (ASD), which records financial authorisation limits for various staff and the cost centres for which they can approve expenditure. The information held within the ASD is used to determine user rights on PECOS.

Observation and Risk

From the test sample of 23 purchase orders (where the approver was recorded in the ASD) we identified 10 instances where the individual had approved an order on PECOS for a cost centre that had not been assigned to them in the ASD.. The results are recorded in the table below::

<b>Cost Centre</b>	<b>Amount</b>	<b>P.O. Number</b>
S36132	£506.78	SC1395503
S01124	£135.00	S1408062
S41036	£150.00	SWJ1418416
S41442	£1,587.00	SW1402136
S04041	£66.70	S1420618
S41654	£78.72	SAAC1405879
S41436	£6,108.48	S1414680
S40442	£1,550.00	SEH1399065
S03043	£215.00	SAT1381394
S41425	£3,910.00	S1390004
<b>Total</b>	<b>£14,307.68</b>	

There is a risk that members of staff can approve purchase orders within PECOS at a value that exceeds their permitted level or for cost centres that are not under their responsibility. This could lead to NHS Lothian incurring expenditure for goods or services that it does not require.

Recommendation

Finance should undertake a comprehensive reconciliation between the ASD and PECOS to verify the consistency of user authorisation limits and cost centres.

All new users who are added to the ASD and PECOS should be counter-checked by a second member of staff to ensure that the user details have been added correctly. Evidence of this check should be retained.

Management Response

Management agree with this recommendation.

Management Action

Procurement will conduct a comprehensive reconciliation between the ASD and PECOS to verify the consistency of user authorisation limits and cost centres. This will be carried out within the current Single PECOS Build.

Spot checks will be carried out monthly on the consistency of PECOS and ASD for new users and amendments.

Responsibility:

Head of Procurement

Target date:

30 September 2019

**Control Objective 6: Creditors are paid promptly and NHS Lothian's performance against the SGHSCD Payment Policy is regularly monitored.**

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

The SGHSCD is committed to supporting business by paying bills more quickly and public sector bodies are required to aim for all invoices to be paid within ten days of receipt.

Therefore, the time taken to pay each invoice (from the date of receipt) is recorded and monitored each month by senior finance staff. NHSL monitors its own performance against the following KPIs:

- % of invoices by value, paid within 30 days
- % of invoices by volume, paid within 30 days
- % of invoices by value, paid within 10 days
- % of invoices by volume, paid within 10 days

For to the financial year 2018/19 NHSL's performance against these targets was as follows:

- % of invoices by value, paid within 30 days (93%)
- % of invoices by volume, paid within 30 days (93%)
- % of invoices by value, paid within 10 days (86%)
- % of invoices by volume, paid within 10 days (86%)

On average, invoices are being paid within 11 days, which is generally in line with Scottish Government targets of 10%

**Control Objective 7: The Board has prepared detailed procedures that comply with the Boards Standing Financial Instructions.**

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

The Financial Operating Procedures: Accounts Receivable & Credit Control set out the framework for managing income and debts and have been prepared to bring into effect (in part) section 12 of the NHS Lothian Standing Financial Instructions, *Income, Fees and Charges*.

The Procedures are available to non-Finance staff through the Finance Online intranet pages, along with other key documents, including the Debtors Request Forms, are on the Finance Online Intranet pages. Finance staff can also access the Procedures through the Finance shared drive.

The current Procedures were approved by the Head of Financial Control in June 2017, and will be due for review in June 2019.

**Control Objective 8: Debtors are set up appropriately and all income generating activities are identified, accurately recorded and subsequently invoiced on a timely basis**

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

Finance is informed about income falling due through Debtors Request Forms (DRFs) completed by budget holders. When forms are received, the Accounts Receivable Team will review them to decide whether new customers require to be set up within eFinancials.

Once this is done Accounts Receivable will then raise an invoice. Invoices are being raised within 3-5 working days following receipt of the DRF, although this can occasionally be 2-3 days longer when staff are on annual leave.

**Control Objective 9: Procedures are followed in ensuring that all invoices are paid and the income is correctly identified, accounted for and reflected in the ledger**

We found no significant weaknesses in relation to this control objective.

The Financial Operating Procedures provide adequate guidance on the accounting for income. Only the Accounts Receivable team has access to the accounts receivable section of eFinancials, and only the team can enter or amend customer details and post transactions against individual debtors.

When DRFs are entered into eFinancials, they are matched to batch headers to confirm that all invoices have been raised. Income received in response to invoices is entered into a clearing account by Treasury or Cashiers. The Accounts Receivable team matches money received with remittance advices and invoices, before matching income against invoices on eFinancials. At month-end, the clearing account is reconciled and any unmatched items investigated.



**Control objective 10: The extent of debt is minimised and there is prompt follow up of overdue accounts, with appropriate authorisation over debt write-offs**

**Finding 3: Reminder letters are not issued to debtors according to the documented schedule.**

**Associated risk of not achieving the control objective: The Board does not recovering all monies due effectively and within an appropriate timeframe.**

**Low**

Background

The Financial Operating Procedures set out parameters for issuing reminder letters and statements to debtors. Outstanding debts are monitored through regular review and update of an All Outstanding Debtors spreadsheet by the Credit control Team, which includes the Head of Financial Control, Financial Controller, Credit Controllers and the Accounts Receivable Team Leader

The timescale for referring debts to collection agencies varies depending on the category of debtor and their invoice payment terms. Referrals can be made after 45, 60 or 75 days.

Observation and Risk

From the test sample of 24 outstanding debtors, extracted from a population of 1,050 (covering June 2007 – December 2018), we identified the following issues:

- In one instance the first reminder letter had been sent out 31 days after the initial 21 day limit (D17445, S0097991 - £477).
- In one instance there was no record of a reminder letter being sent for a debt that had exceeded the 21 day limit (D6526, S0100544 - £1,386.17).

Unless the appropriate schedule for reminder letter is followed, there is a risk that the Board is not recovering all monies due effectively and within an appropriate timeframe.

Recommendation

Finance should ensure that the appropriate schedule for reminder letters is followed when pursuing outstanding debts.

Management Response

Agreed, management accept this recommendation.

Management Action

The Financial Controller will remind the credit control team of the importance of issuing customers with reminder letters. This will also be discussed at the monthly credit control meetings.

<u>Responsibility:</u> Financial Controller	<u>Target date:</u> 30 June 2019
--	-------------------------------------

**Control objective 10: The extent of debt is minimised and there is prompt follow up of overdue accounts, with appropriate authorisation over debt write-offs**

**Finding 4: Month end reconciliations have either not been performed or there is no record of their review.**

**Associated risk of not achieving the control objective: There is no adequate monitoring of the Board's movement of debt each month, in addition to the level of bad debt to be provided for in the Board's accounts.**

**Low**

Background

The Accounts Receivable & Credit Control Operational Procedures require that a number of reconciliation exercises are performed at the end of each month, three of those being:

- Bad debt provision.
- Debtors cash clearing account.
- Debtors control account.

Observation and Risk

While reconciliations are generally taking place in accordance with the month-end schedule, testing on a sample of three months in 2018/19 for each of the reconciliations identified some issues that are recorded below:

- Bad debt provision reconciliations had not been carried from July 2018 to January 2019. This had been due to the member of staff normally responsible for this being involved in a project that took priority outside of their regular activities.
- There was no record of review of debtors cash clearing reconciliations for August 2018 and March 2019.
- There was no record of review of debtors control account reconciliations for December 2018.

Unless the appropriate schedule for debt reconciliations followed and their review confirmed, there is a risk that there is no adequate monitoring of the Board's movement of debt each month, in addition to the level of bad debt to be provided for in the Board's accounts.

Recommendation

While it is noted that the regular credit control meeting are useful in monitoring the level of debt owed to NHS Lothian, staff within Accounts Receivable & Credit Control should ensure that all necessary reconciliations are performed in accordance with the month end schedule and that review of these by the Financial Controller is clearly recorded and saved in the relevant shared drive location for future review.

Management Response

Agree with recommendation.

Management Action

Although the reconciliations were not completed during this period the debt position was discussed and monitored at the credit control meetings with the Head of Financial Control and Financial Controller. However, we will remind the credit control team of the importance of these reconciliations.

Responsibility:

Financial Controller

Target date:

30 June 2019

**Control Objective 11: Income and receivables data is regularly reported to the Finance & Resources Committee**

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

The Financial Operating Procedures record the reporting responsibilities of the Financial Controller and Accounts Receivable Team Leader. According to the Procedures, they are required each month to prepare write-off papers and supporting documentation, and present this to the Deputy Director of Finance. The procedures also state that Key Performance Indicators have been agreed and are produced monthly and presented to the Head of Financial Services. There is no mention within the Financial Operating Procedures of reporting to the Finance & Resources Committee, with enquiries confirming that no such reporting takes place, with no requirement to do so.

The Financial Operating Procedures lists 6 separate KPIs that are compared at each month end, including:

- Number of active customers split between NHS and Others;
- Number of payments processed each month; and
- Number of invoices raised per month and split between NHS and Others.

Although information is not being produced each month and sent to the Head of Financial Services for information and review, the Accounts Receivable Team Leader updates a KPI spreadsheet at the end of each month, recording the total debt owed to NHS Lothian and length of time it has been outstanding (0-30 days, 30-60 days etc). This information is also split across that owed by Scottish Health Boards and other debtors.

While it is noted that KPIs should be appropriate, meaningful, measureable, realistic and timely. Many commercially driven KPIs are not meaningful or obtainable within the health sector environment and the National Order to Cash Focus Group did not identify any standard KPIs that should be used. All current KPIs are included in the monthly department KPIs which are discussed and reviewed by the Senior Finance Team.

**Control objective 12: Employee standing data is complete and accurate**

We identified no significant issues in relation to this control objective. Following Internal Audit's Payroll review in February 2017, it was noted that there were no formal procedures held by payroll to guide staff on the day to day activities of the department.

While management had at the time acknowledged that the department did not have a standard set of procedures for all tasks within the department, an action was agreed to introduce written for the Payroll Department.

In September 2017, Payroll Manager introduced desktop procedure to be used by current and new staff, providing guidance in the following areas:

- Appointments
- Amendments
- Overpayments
- Cancellations of B.A.C.S.
- Requesting an Advance Payment
- Terminations
- Superannuation
- Maternity Leave
- Sick Leave
- Arrestments/Deductions

The procedures are due for review in September 2019.

Also, line managers use their budget statement available through the Tableau finance dashboards to confirm the staff that they pay for and their associated pay costs

**Control objective 13: Changes to employee standing data are authorised, and an audit trail is maintained**

**Finding 5: Significant changes to employees' standing data are not always checked by Payroll.**  
**Associated risk of not achieving the control objective: Changes have not been made correctly, resulting in incorrect payments.**

**Medium**

Background

The Payroll Department process changes to staff members' standing data, which can include events such as new starts, terminations, a change to working hours, or a change of home address or bank account details.

For all significant changes, Payroll Department team leads will check that the change has been made correctly in the ePayroll electronic system and will place a note in the system that they have performed the check. Significant changes are classed by Payroll managers as being within the following four categories: new starts, terminations, a change to working hours, or a change to pay details.

Observation and Risk

Testing was carried out on a sample of 24 changes carried out on staff within the last 3 months and under each of the six categories:

- Transfer Employment
- Termination
- Pay Details
- New Starts
- Basic Details
- Hour Management

Of these, 16 changes had been checked and eight not checked according to the ePayroll system. Further testing on a sample of 200 records under each category recorded the following results:

Change	Checked	Unchecked	% Checked
Transfer	133	67	67%
Termination	186	14	93%
Pay Details	92	108	46%
New Starts	178	22	89%
Basic Details	46	154	23%
Hours Management	142	58	71%

In addition, team leads do not review ePayroll logs to confirm that they have checked the

processing for all significant items.

If team leads do not check all significant changes to employees' standing data there is a risk that changes have not been made correctly, resulting in incorrect payments.

Recommendation

The Deputy Payroll Managers should instruct team leads to check all significant changes to staff members' standing data, specifically new starts, terminations, changes to hours worked, and pay details changes. In doing this, consideration should be given to what information is being checked and whether the percentages are reasonable.

In addition, the Deputy Payroll Managers should instruct the team leads to regularly check ePayroll to confirm that all significant changes have been reviewed.

Management Response

It is Payroll department policy that all changes that have an impact on an employee's salary payments should be checked by a Team Leader.

Management Action

Team Leaders will be reminded that they are required to check all changes that have an impact on an employee's salary. Also, Payroll department management will update a document to instruct staff on what changes are relevant and require to be checked.

Responsibility

Payroll Management Team

Target date

30 June 2019



**Control objective 14: Payments to employees are complete and timely.**

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

Each year the Deputy Payroll Managers agree the timing of both the weekly and monthly payroll runs with Atos. In addition, Payroll Department staff inform line managers of the cut-off dates for the submission of both SSTS and eExpenses claims relating to additional payments to staff.

**Control objective 15: Additional payments to employees, including overtime payments, are accurate and authorised.**

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

Where staff members claim for additional payments, e.g. for expenses or overtime, their claims must be authorised by their line manager before they are submitted to Payroll for payment.

After each weekly and monthly payroll run the payroll system generates a report which lists all staff members whose overall payment has increased / decreased by more than 25% from their previous payment. Payroll staff will then review each item on the list to confirm that the payment was valid.

**Control objective 16: Reconciliations are performed for data transfers from SSTS and eExpenses to ePayroll.**

**Finding 6: Issues noted on interface reports are not always marked in the system as having been dealt with.**

**Low**

**Associated risk of not achieving the control objective: Changes have not been made correctly, resulting in incorrect payments.**

Background

Prior to each weekly and monthly payroll run, payment information is transferred to ePayroll from SSTS and eExpenses respectively. ePayroll then generates an interface report which lists any items which have not transferred from SSTS and eExpenses, which is then checked by Payroll Administrators and each item dealt with.

Observation and Risk

Testing on a sample of six weekly interface reports between SSTS and ePayroll identified three of the six having entries that had not been marked on ePayroll as reviewed and dealt with by Payroll Administrators. The Deputy Payroll Managers stated that these items will have been dealt with but they simply had not been marked off on the system.

If all items on interface reports are not dealt with then there is an increased risk that staff do not receive all payments.

Recommendation

The Deputy Payroll Managers should remind Payroll Administrators to check all interface report entries and mark each entry as having been reviewed.

Management Response

All staff will be reminded that entries on the interface reports require to be signed off as having been reviewed.

Management Action

The Payroll Management Team will issue a reminder to all staff.

Responsibility

Payroll Management Team

Target date

30 June 2019

**Control objective 17: Travel and subsistence payments are made in line with NHS Lothian policies and procedures**

**Finding 7: Checks on expense claims are not always performed.**

**Associated risk of not achieving the control objective: Expense claims are false or errors are undetected.**

**Low**

Background

When staff claim for expenses they can submit them electronically through eExpenses or complete a paper form. The staff member's line manager then approves the claim, either by signing the paper form or by approving on eExpenses, before it is passed to the Expenses Department for payment.

For paper claims Expenses will check the form before approving the payment, but for claims through eExpenses they will perform retrospective checking after payment has been made through ePayroll. These checks are stated in the Expenses Department procedures, and recorded below:

- Following all pre-payroll processing runs, the expenses team will review all expenses related output reports and liaise with the payroll team to ensure that expenses claims submitted are reimbursed appropriately.
- Perform a random 10% check of all claims contained in payroll expenses report EPA053, produced following each monthly/weekly payroll run to ensure the reasonableness of the claim.
- Monitor the Un-receipted Claims Report produced with each payroll run to ensure that individual employees are not consistently failing to provide receipts.
- After each payroll run the expenses team will reconcile the Control Run Totals against the Data Extraction Report, to ensure that both reports balance and take account of any claims not paid.

Observation and Risk

Each of the checks listed above were walked through with a member of the Payroll team and while there was evidence to confirm that the pre-payroll, un-receipted claims and data extraction reconciliation checks are being carried out each month, the monthly 10% check of all claims produced has not been carried out this financial year was carried out only four times last financial year, and only for claimants with surnames beginning with the letters M-Z.

Although it was noted that the weekly checks are being performed.

If checks are not performed by Expenses Department staff of expenses claims made there is an increased risk that claims are false or that errors are undetected.

**Recommendation:**

Staff should endeavour to complete all necessary expense claims checks recorded within the

expense claims check procedures.

Management monitor the checking completed and implements corrective measures where the level of checking has fallen below that instructed by the expenses claims guidance.

Management Response

We acknowledge that the random 10% check of electronic claims has not always been undertaken during the past year, this was mainly due to limited staff resources being available at particular times. Within such a small team, this means that the resources available are required to prioritise their workload to ensure that expenses claims are processed and reimbursed within the appropriate timescales.

Management Action

The Payroll Management Team will monitor the checking that is able to be undertaken by the expenses team over the next 6 months and if required, will undertake a review of the Expenses Department Procedures.

Responsibility

Payroll Management Team

Target date:

31 December 2019

## Appendix 1 – Staff Involved and Documents Reviewed

### Staff Involved

- Financial Controllers
- Accounts Receivable Team Leader
- Credit Controller – Accounts Receivable
- e-Procurement Manager
- Accounts Payable Team Leader
- Quality Assistant – Accounts Payable
- Payroll Manager
- Deputy Payroll Manager
- Divisional Payroll Manager
- Admin Assistant - Payroll

### Documents Reviewed

- Operating and Desktop Procedures
- BOXI reports providing data on purchase order raised and invoices paid
- Reconciliation documentation
- Authorised Signatories Database
- Finance Department KPIs and month-end reports
- All outstanding debtors spreadsheet
- Debt write off communication sent to the Deputy Director of Finance.
- Aged debtors report
- Reminder letter schedule
- Audit permission was used to interrogate the ePayroll system and extract sample data for testing.
- Expense claim checking documentation.

## Appendix 2 - Definition of Ratings

### Findings and management actions ratings

Finding Ratings	Definition
<b>Critical</b>	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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
<b>No assurance</b>	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)
<b>Limited assurance</b>	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"> <li>• There are known material weaknesses in key control areas.</li> <li>• 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.</li> </ul> <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>
<b>Moderate assurance</b>	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>
<b>Significant assurance</b>	<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>