

NHS Lothian

Internal Audit 2024/25

Expenditure

February 2025

FINAL REPORT

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Contents



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It is the responsibility solely of NHS Lothian management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.



Section	Page
Executive summary	03
Headline messages	05
Summary of findings	07
Detailed findings and action plan	09

Appendices	
Appendix 1: Staff involved and documents reviewed	12
Appendix 2: Our assurance levels	13
Appendix 3: Our recommendation ratings	14

Report Distribution

Executive Lead:

- Craig Marriott - Director of Finance

For action:

- Olga Notman – Head of Financial Control

For Information:

- Caroline Hiscox - Chief Executive
- Craig Marriott – Director of Finance
- Audit and Risk Committee

Executive summary



Background

Financial Controls are a key component of NHS Lothian's overall internal control environment. As part of our strategic internal audit plan, we identified areas that we would consider the organisation's financial controls on a rotational basis, covering all core areas at least once over the 3 years. Our focus during 2024/25 was to undertake a review on expenditure.

Controls around eFinancials and expenditure are a key component of the overall control environment of the overall control environment for NHS Lothian. These are essential checks and procedures which help the organisation meet its legal duties and support finance staff to effectively identify and manage risk.

The organisation must also ensure the quality of financial reporting by using adequate financial systems and accounting records to prepare relevant and timely financial information. To achieve these aims NHS Lothian must ensure expenditure is recorded in a timely and accurate way, and that its financial affairs are well managed.

Executive summary



Objectives

Our review focussed on the potential risk areas:

- Financial regulations, and a scheme of delegation have not been established or approved by the relevant forum
- Payment of invoices is insufficiently controlled, as a result, payments are made without authorised purchase orders, late, processed without appropriate authorisation in line with the scheme of delegation limits and/or prior to conformation that goods are received
- There is no regular review of expenditure to ensure completeness and as such, financial transactions are not recorded in the correct financial year, and financial performance is misstated
- Expenditure is not monitored or reported to identify an outliers and as such anomalies, opportunities for efficiencies and cost reductions are not identified
- NHS Lothian's financial position is not reported on or monitored by management or committee



Limitations in scope

Our findings and conclusions are limited to the risks identified within the APB. The scope of this audit does not allow us to provide an independent assessment of all risks and controls associated with fraud.

Where sample testing is undertaken, our findings and conclusions will be limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

This review does not constitute an assurance engagement as set out under ISAE 3000.



Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

Headline messages



Significant Assurance

We have completed our assessment of the design and operational effectiveness of the controls in place regarding expenditure and have concluded that the processes have provided **Significant Assurance**. This was confirmed through sample testing, review of documentation and through discussions with management and other staff.

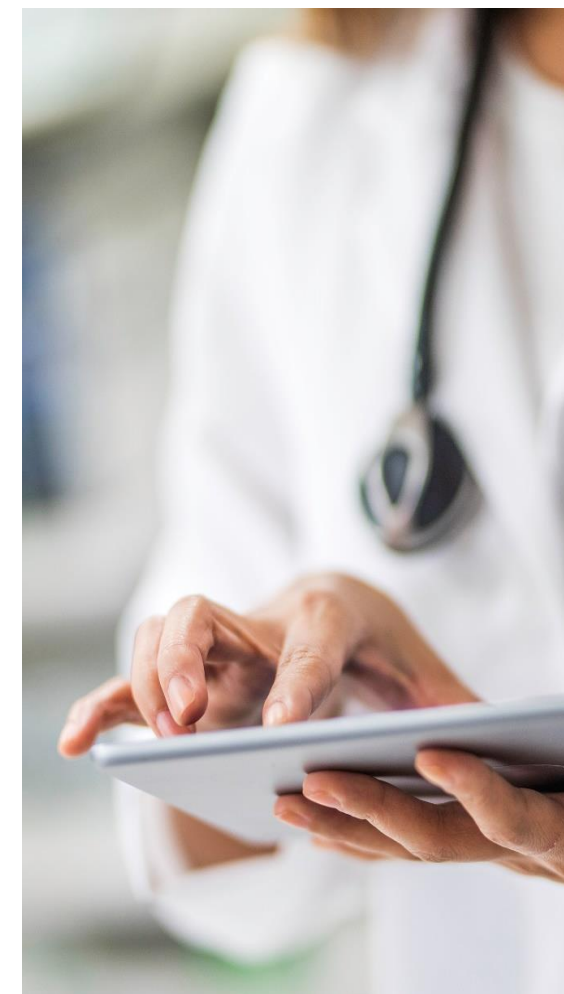
We have provided 'Significant Assurance' based on our findings, indicating that the controls upon which the organisation relies are suitably designed and, in most cases, effectively applied. However, we identified two instances where controls can be further strengthened.

Our internal audit of NHS Lothian's management of expenditure identified that adequate controls are in place for the ordering, receipt, and invoice payment processes, as well as for the monitoring and reporting of expenditure. However, we noted issues concerning the review and update of documented guidance and approval of Purchase Orders without the required authorisation included in PECOS.

Two low-rated weaknesses were identified, each resulting in a low-risk recommendation:

1. The Accounts Payable Finance Operational Procedures were last updated by the Head of Financial Control in May 2021, and their review is now overdue. Outdated procedures may lead to inconsistencies, reducing operational efficiency and increasing the likelihood of errors or non-compliance with updated regulations and standards.
2. An individual was identified as having approved a purchase order for a cost centre not assigned to them in the Authorised Signatories Database. While the approver was appropriate based on their position and job title, authorisation had not been provided by the appropriate budget holder and included alongside the Estates purchase order. There is a risk that, without relevant authorisations, staff may approve purchase orders in PECOS at values exceeding their permitted level or for cost centres outside their responsibility. To mitigate this, staff should be reminded to include written authorisation from budget holders where purchase orders have been raised for cost centres not under the approver's direct responsibility

We will review progress made as part of our recommendation tracking during 2024/25.



Headline messages



Conclusion

We have raised **six** recommendations. The grading of these recommendations, based on risk, is summarised in the table below.

Risk	Assurance rating	Number of recommendations			
		High	Medium	Low	Imp
Financial regulations, and a scheme of delegation have not been established or approved by the relevant forum	Significant Assurance	-	-	1	-
Payment of invoices is insufficiently controlled, as a result, payments are made without authorised purchase orders, late, processed without appropriate authorisation in line with the scheme of delegation limits and/or prior to confirmation that goods are received	Significant Assurance	-	-	1	-
There is no regular review of expenditure to ensure completeness and as such, financial transactions are not recorded in the correct financial year, and financial performance is misstated	Significant Assurance	-	-	-	-
Expenditure is not monitored or reported to identify an outliers and as such anomalies, opportunities for efficiencies and cost reductions are not identified	Significant Assurance	-	-	-	-
NHS Lothian's financial position is not reported on or monitored by management or committee	Significant Assurance	-	-	-	-

Summary of findings



Examples of where recommended practices are being applied

- Documented procedures are in place to guide finance staff on the steps to follow when managing expenditure. The Standing Financial Instructions and the Scheme of Delegation clearly outline the Board's responsibilities regarding non-pay expenditure and define the financial thresholds for expenditure approval.
- Segregation controls are established within NHS Lothian's procurement system, PECOS, with delegated authority limits for staff recorded in the Authorised Signatory Database and adhered to. Accounts Payable process payments only after goods or services have been receipted in the eFinancials or PECOS system. For transactions outside the PECOS system, payments are processed only once the invoice has been signed by a staff member with the appropriate delegated authority.
- Monitoring and reporting arrangements are in place for invoices received and paid without a corresponding purchase order. Controls around the payment of these invoices are observed and validated. The eFinancials system includes built-in controls that flag invoices exceeding system tolerances, ensuring that invoiced amounts are accurate or that credit notes are issued where necessary.
- All batch runs are being checked and approved prior to payment. Routine analysis is also carried out where the invoice to be paid is not supported by a Purchase Order or requires further investigation. All invoices included in the batch run and over £10k are being reviewed.
- The time taken to pay invoices is being monitored and reported as a Finance Department Key Performance Indicator. With action routinely taken to determine the reasons behind these and ensure payment as quickly as possible.
- Monthly reconciliations between the creditors control account and purchase ledger are performed and reviewed by the Finance Manager. Expenditure is monitored monthly and at year-end by the Finance Control Team to ensure all expenditure is recorded in the correct period, with appropriate accruals for unpaid financial commitments.
- All expenditure is reported and monitored using Tableau Dashboards. This tool enables budget holders to access monthly financial data at various levels, identify trends or inefficiencies, and improve service efficiency.
- Routine reporting on financial matters is provided to the NHS Lothian Corporate Management Team, the Finance & Resources Committee, and the NHS Lothian Board.

Summary of findings



Areas requiring improvement

- The Financial Operating Procedures for the Accounts Payable function are currently out-of-date and require review and updating by the Head of Financial Control.
- Testing had identified one instance where authorisation had not been provided by the appropriate budget holder for a purchase order approved by a member of staff without authority for a particular cost centre. Any such transaction should be accompanied by written approval by the budget holder.

Detailed findings and action plan

1.1	Significant Assurance	Financial regulations, and a scheme of delegation have not been established or approved by the relevant forum	
Finding and implication		Audit recommendation	Management response, including actions
<p><u>Guidance is not subject to routine review</u></p> <p>The Accounts Payable function is responsible for:</p> <ul style="list-style-type: none"> • The custody of the Board's invoices • The timely payment of presented invoices, following confirmation of receipt of goods or services, and agreement as to the amount to be paid and to whom <p>To support staff in this process, Accounts Payable Finance Operational Procedures have been introduced to implement elements of Section 12 of the NHS Lothian Standing Financial Instructions.</p> <p>However, while documented guidance is in place through the Finance Operating Procedure, a review of the document noted that the version currently in use was last reviewed in May 2021.</p> <p>Out-of-date policies and procedures in the accounts payable function may not be reflective of current practice, or inconsistent with other procedures or instructions.</p>		<p>Recommendation 1</p> <p>The Financial Operating Procedures should be reviewed and updated to reflect their current practice. This should also include the date of review and a schedule for routine reviews.</p>	<p>Actions:</p> <p>The Financial Operating Procedure is in the process of being reviewed. It will subsequently be approved by the Head of Financial Control.</p> <p>Responsible Officer: Head of Financial Control</p> <p>Executive Lead: Director of Finance</p> <p>Due Date: 28 February 2025</p>

Detailed findings and action plan

2.1	Significant Assurance	Payment of invoices is insufficiently controlled, as a result, payments are made without authorised purchase orders, late, processed without appropriate authorisation in line with the scheme of delegation limits and/or prior to confirmation that goods are received
Finding and implication	Audit recommendation	Management response, including actions
<p><u>Cost centre approval is not recorded in the Authorised Signatory Database</u></p> <p>The PECOS procurement system requires that all purchase orders are raised, approved, and receipted prior to payment. Appropriate segregation of duties must be maintained, including adherence to the Board's delegated authority limits, as recorded in the Approved Signatories Database (ASD). Routine reconciliation is carried between the ASD and PECOS by Procurement staff to ensure that approval limits and permissions are accurate and up-to-date.</p> <p>Testing was conducted on a sample of 27 purchase orders raised during this financial year. No instances were identified where the same individual both raised and approved an order. However, testing noted one instance (purchase order SWJ14320091) where the person approving the order did not have the relevant cost centre assigned to them in the ASD (S41656). We have confirmed that the amount authorised (£2,983) was within the approvers delegated authority financial limits.</p> <p>There is an arrangement within Procurement that permits individuals within Estates and with the appropriate delegated authority to approve purchase orders associated with this cost centre. Orders of this type should be accompanied with written approval from the budget holder.</p> <p>While the approver was appropriate based on their position and job title, authorisation had not been provided by the appropriate budget holder and included alongside the Estates purchase order. There is a risk that, without relevant authorisations, staff may approve purchase orders in PECOS at values exceeding their permitted level or for cost centres outside their responsibility.</p>	<p>Recommendation 2</p> <p>Staff should be reminded to include written authorisation from budget holders where purchase orders have been raised for cost centres not under the approver's direct responsibility.</p>	<p>Actions:</p> <p>Estates department will be reminded of the appropriate procedure that should be followed in all cases.</p> <p>Responsible Officer: Head of Financial Control / Deputy Head of Procurement</p> <p>Executive Lead: Director of Finance</p> <p>Due Date: 28 February 2025</p>

Appendices

Appendix 1:

Staff involved and documents reviewed



Staff involved

- Brenda McColl, Finance Manager
- Margaret Wolfenden, Senior Finance Manager
- Diane Veitch, Assistant Finance Manager
- Greg Stark, Programme Manager
- John Aitken, Accounts Payable Supervisor



Documents and Systems Reviewed

- Finance Operating Procedures
- PECOS Ordering System
- eFinancials
- BOXI reports providing data on purchase orders raised and invoices paid
- Reconciliation documentation
- Authorised Signatories Database
- Finance Department KPIs and month-end reports/reconciliations
- Batch run approvals
- Month end and year end accrual documentation



Appendix 2:

Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
Significant Assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective. 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. 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>
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. 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>
Limited Assurance	<p>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> <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>
No assurance	<p>The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.</p> <p>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 a number of HIGH rated recommendations)</p>

Appendix 3:

Our recommendation ratings

The table below describes how we grade our audit recommendations based on risks:

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> • Key activity or control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures/standards • Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> • Important activity or control not designed or operating effectively • Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures/standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> • Minor control design or operational weakness • Minor non-compliance with procedures/standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> • Information for management • Control operating but not necessarily in accordance with best practice

