NHS Fife
Review of governance arrangements and internal controls
2015/16 audit

Prepared for NHS Fife
April 2016
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Review of governance arrangements and internal controls

Introduction

1. Audit Scotland’s Code of Audit Practice (the Code) sets out the basic principles that govern all audit work. Compliance with the code ensures that audits are conducted in accordance with legislative requirements and International Standards on Auditing.

2. Understanding the client’s governance and accountability environment is crucial to the audit. As part of our work in this area, we carry out an annual review of the corporate governance arrangements in place at the board.

3. The Code also requires the auditor to review and report on the main financial systems to contribute to the assessment of corporate governance arrangements. Our overall assessment of the main financial systems also forms part of the process of arriving at an appropriate audit opinion on the financial statements.

4. In carrying out this work, we seek to gain assurance that NHS Fife:
   - has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
   - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
   - complies with established policies, procedures, laws and regulation.

5. The purpose of this review was to evaluate whether the internal controls operating within the main financial systems are adequate to enable us to place reliance on them when forming an opinion on the 2015/16 financial statements. It should be highlighted that these reviews were restricted to the key controls in place to meet our audit objectives for each system.

6. In accordance with International Standard on Auditing (ISA) 330: the auditor’s response to assessed risk paragraphs 14 and 15, our audit judgements are based on current year testing of controls and where appropriate, prior year results. Our risk based audit approach allows us to take a 3 year cyclical approach to system controls testing. This enables us to place assurance on previous years’ audit work where the system controls are unchanged and no significant weaknesses were previously identified.

7. The table below summarises the main financial systems that were tested during 2015/16. It also identifies those where we are placing reliance on prior years' testing and those where we have placed formal reliance on internal audit work to avoid duplication of effort:
As part of our 2015/16 audit we also reviewed whether the agreed management actions in our 2014/15 governance arrangements and internal controls report had been implemented. This report was issued to management in May 2015 and contained seven action plan points. We found that three of the actions still require to be implemented by management (this includes one action which has yet to be implemented as a result of the national delay with the implementation of eESS).

### Risk identification

9. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to NHS Fife. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### Overall conclusion

10. Our review revealed that NHS Fife has generally sound corporate governance arrangements in place and that overall, the key controls within NHS Fife's key financial systems are operating satisfactorily. Although we have identified no significant weaknesses in the system of controls, some areas have been identified where there is scope for improvement, as noted in Appendix A.

11. We found that some of the management actions agreed following our 2014/15 review had not been implemented and there remains scope for improvement. Appendix B to this report highlights progress on the 2014/15 agreed management actions and the areas where improvements could continue to be made.
Management action

12. A summary of those areas where there is scope for improvement in the governance arrangements and system of controls are included in Appendix A to this report. Planned action, responsibilities and timescales for action in response to the identified risk exposure have been provided by management.

Acknowledgements

13. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.
### Appendix A - Action plan

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| Governance - public access to information | **Issue**: There remains scope for improvement to ensure that the website is consistently updated with information of interest to members of the public. We noted a number of areas where information was not available on the website including: agendas and supporting papers for committee meetings; committee meeting dates and venues; details of the Scottish Ministers’ Annual Review. We also noted that the 2014/15 Board of Directors register of interest and register of gifts and hospitality were not loaded onto the website until November 2015.  
**Risk**: Users do not have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.  
**Recommendation**: Information on the board’s website should be regularly reviewed and the website updated with relevant information in a timely manner. | We are currently actively addressing these issues and will be recruiting a Head of Communications who will be responsible for improving both the intranet and internet.  
We are also in the process of migrating our internet and intranet to a new platform which should improve access. This will not happen immediately but should be completed within a 9-12 month period and should be completed by March 2017. | Director of Planning & Strategic Partnerships | March 2017 |
| Governance - committee membership | **Issue**: The non-executive membership of the Audit and Risk Committee changed in 2015 and has been subject to further change with the addition of two new members. It will take time for the new membership to bed in and become effective in their All non executives receive generic development on their roles through Board Development Sessions. The 2 additional members have already received a half day induction session led by the Chair of the | | Director of Finance | Ongoing |
### System of internal controls - financial ledger

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<td>A3</td>
<td>Following our 2014/15 report in which we reported that a former employee who had left employment with NHS Fife in December 2014 had continued to have live access to the eFinancials ledger, management agreed that the system manager would review the removal of access to eFinancials on a monthly basis. During our 2015/16 review we noted that only 2 reviews (August 2015 and January 2016) had been undertaken since the issue of our 2014/15 report.</td>
<td>Unauthorised amendments may be made to the financial ledger and other systems without detection, while access continues to be available to employees who have left NHS Fife's employment.</td>
<td>Management should ensure that the access review implemented in 2015/16 is carried out at the agreed monthly intervals.</td>
<td>NHS National Shared Services (NHS NSS), who control access to the ledger, update the system half yearly. A report on staffing and access is presented to the board at each update and is reviewed by the system manager. We are content with the level of assurance this provides.</td>
<td>Assistant Director of Finance (Financial Services)</td>
<td>Management has considered the identified issue, risk and recommendation and has decided that no further action is required</td>
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<td>A4</td>
<td><strong>Issue</strong>: Under the Financial Operating Procedures (FOPs) all permanent journals with the exception of those prepared by Management Accountants at Band 5 or above and the Senior Financial Services Accountant are required to be authorised by a senior officer before posting to the general ledger. Testing of 15 permanent journal entries revealed that 8 of the journals had not been appropriately authorised in line with the FOPs. <strong>Risk</strong>: Errors may not be detected, which could impact on the accuracy of the financial statements. <strong>Recommendation</strong>: Journals posted to the ledger should be authorised in accordance with the FOPs. There may also be merit in requiring journals prepared by Management Accountants at Band 5 or above to be authorised by the Senior Financial Services Accountant.</td>
<td>We concur with this finding. Two of the journals were prepared by Management Accountants (below Band 5), one by a Ledger Control Officer and one by the Car Lease and Control Manager, without further authorisation. We will issue a reminder to ensure authorisation is followed as per the FOPs. The remaining four journals were prepared by the Systems Manager and we will review this procedure and take appropriate action. We do not propose to amend the FOPs in relation to the Management Accountants at Band 5 or above.</td>
<td>Assistant Director of Finance (Financial Services)</td>
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**System of internal controls - payroll**

<p>| A5  | <strong>Issue</strong>: In 2014/15, we reported on the national delay in implementing the new HR system, eESS, within the NHS and in particular an interface between eESS and the payroll system, ePayroll. This delay continues and although eESS has partly gone live (in HR) in March 2016, this proved problematic. The system hasn’t been rolled out to managers and staff for self service and there is no proposed date to do so pending progress with national issues. This means that the issue continued throughout 2015/16 and NHS Fife continued to electronically process payroll. The ePayroll interface is being progressed and tested nationally within one Board before roll out. The External Review of eESS has resulted in a number of issues being prioritised nationally for the central team and/or Atos to resolve. This impacts on further implementation of eESS and roll out of Self Service. Regular up-dates on national progress are provided to a number of Groups including the Chief. | The ePayroll interface is being progressed and tested nationally within one Board before roll out. The External Review of eESS has resulted in a number of issues being prioritised nationally for the central team and/or Atos to resolve. This impacts on further implementation of eESS and roll out of Self Service. | Deputy Director of HR | Timescales are dependent upon the national work/timescales |</p>
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<td>initiate and maintain the employment records through the payroll system, rather than the HR system for 2015/16. <strong>Risk:</strong> While the implementation of eESS and the interface with ePayroll remains outstanding, employee details may be incorrectly entered or maintained, which may result in errors or unapproved changes. <strong>Recommendation:</strong> Management should monitor progress nationally with the intention of implementing the new system as soon as possible. All employee master data should then be provided by the HR function.</td>
<td>Executives, Directors of Human Resources (HR) and Directors of Finance. Problems encountered following &quot;Go Live&quot; within the HR Directorate in March 2016 are being worked through with significant progress already made. Regular Reports on progress are provided to the APF and Staff Governance Committee. HR being able to use eESS locally is dependent upon identifying problems and solutions to these.</td>
<td>Deputy Director of HR</td>
<td>December 2016</td>
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<td>A6</td>
<td><strong>Issue:</strong> Under UK Government policy, all employers are required to check that their employees are eligible to work in the UK. This is termed as the 'Right to Work'. Employers are required to retain documentation that supports eligibility, which typically takes the form of copies of a passport or driving licence (both of which record place of birth). From our testing of a sample of 22 employee files we noted 11 which had no documentation to evidence the 'Right to Work' status. <strong>Risk:</strong> NHS Fife cannot demonstrate the 'Right to Work' status of all its employees and may be employing staff illegally. <strong>Recommendation:</strong> NHS Fife should retain robust evidence to support the 'Right to Work' status for all its employees.</td>
<td>The Recruitment and Selection Standards are clear that this documentation requires to be retained on personal files. We will remind all Recruiting Managers and HR staff of this requirement. The Standards are currently under review and when the revised version is issued we will take the opportunity again to highlight this requirement.</td>
<td>Deputy Director of HR</td>
<td>June 2016</td>
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<td>A7</td>
<td><strong>Issue:</strong> We have previously note deficiencies in the retention of documentation in employees' personal files. Our 2015/16 HR Service Standards are in place to help ensure documentation is retained on personal files. All HR</td>
<td></td>
<td>Deputy Director of HR</td>
<td>June 2016</td>
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|     | testing identified further examples of incomplete file documentation held by Human Resources:  
- from a sample of 22 employee files we noted that 2 did not contain a copy of the contract of employment  
- from a sample of 10 leavers, 3 employee files did not contain a termination form and for 1 no employee file could be traced. | staff are aware of this requirement. HR staff will be reminded of the need to ensure documentation is retained on personal files.  
Work is on-going to centralise the HR personal filing system which will assist with filing by making files more accessible and easier to find. |             | March 2017 |
| A8  | Issue: Management accountants issue quarterly employee listings to budget holders across NHS Fife to confirm the validity of employees on the payroll system. We are pleased to see this important control in place at the board, however we note that there is no overarching record of which budget holders have been contacted and responded and that responses from budget holders are not always retained by the Management Accountants to demonstrate the outcome of the reviews and to demonstrate the operation of this control.  
Risk: Erroneous payments could be made without detection.  
Recommendation: Management accountants should maintain a record of contact with budget holders and retain the responses to evidence that the validity of all employees has been | The roll out of Boxi Scheduler will automate the standard reports issued each month. The automation of the reports via Scheduler will mean there is a record of contact for the reports.  
For the May reports we intend issuing a message to all budget holders to capture a range of issues including any additional information requirements (eg staff lists), glossary of terminology, reminder of budget holder responsibilities. | Assistant Director of Finance (Management Accounts) | June 2016 |
### System of internal controls - Family Health Service

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| A9  | **Issue**: NHS Fife receives a monthly advice note detailing the amounts paid on their behalf by National Services Scotland (NSS). A monthly reconciliation is undertaken by NHS Fife’s Ledger Control Manager, to ensure that the amounts in the ledger reflect the information in the advice note. In our 2014/15 report on governance and internal controls we recommended that the NHS Fife’s Ledger Control Manager signs and dates the monthly reconciliation and although action was agreed by management, the recommendation has not yet been implemented.  
**Risk**: Officers may not be operating the control designed to ensure that the correct amounts paid are posted to the financial ledger. This could result in erroneous reporting of financial activity.  
**Recommendation**: The monthly reconciliation should be clearly evidenced and dated by the certifying officer operating the control. | The monthly reconciliation is now being signed by the Ledger Control Manager. As part of the monthly FPR submission to Scottish Government the Senior Financial Services Accountant also reconciles the advice note balances to the trial balance as an independent check that the amounts in the ledger reflect the advice note. | Assistant Director of Finance (Financial Services) | Already actioned. |
# Appendix B - 2014/15 Action plan progress

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<td>Governance - Register of interest and hospitality and gifts</td>
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| B1 | **Issue**: Based on our 2013/14 report, management agreed to update NHS Fife’s website with current versions of registers of interest and gifts and hospitality. At the time of our audit (March 2015) we identified that this action had been partially implemented. Out of date registers remained on the website for some areas including e.g. the Acute Services Division.  
**Risk**: NHS Fife may not be able to demonstrate that decisions taken in the course of business are not subject to conflicts of interest or bias and may not be able to demonstrate completeness in regard to the related parties disclosure in the financial statements.  
**Recommendation**: The NHS Fife website should be updated to include the current versions of the registers of interest and gifts and hospitality. | The 3 people responsible for updating registers have been contacted and instructed to post up to date information.  
Head of Corporate Services  
Immediate | There remains scope for improvement to ensure that the website is consistently updated with information of interest to members of the public.  
**Continuing issue** - carried forward to Appendix A point A1. |
| System of internal controls - financial ledger | | | |
| B2 | **Issue**: We identified a former employee who had left employment with NHS Fife in December 2014 but who continued to have live access to the eFinancials ledger system. We understand that login access to the board’s active directory is automatically terminated after eight weeks of inactivity and that a manual review of systems access is undertaken twice a year to ensure that users’ access remains valid. The eFinancials access was subsequently removed as part of the biannual review in | The system manager will review the removal of access to eFinancials monthly.  
Assistant Director of Finance (Financial Services) | **Continuing issue** - carried forward to Appendix A point A3. |
February 2015. This resulted in the former employee continuing to have access for a period of two months.

User access for former employees was identified as an area for improvement in our 2013/14 report on ICT: Review of Access Controls and an action for improvement was agreed, involving use of the Courion eProvisioning pilot, which was to be completed by November 2014.

**Risk:** Unauthorised amendments may be made to the financial ledger and other systems without detection, while access continues to be available to employees who have left NHS Fife’s employment.

**Recommendation:** Management should ensure that a control is put in place to ensure that employees who leave the employment of NHS Fife have their access rights terminated in a timely manner.

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| B3  | **Issue:** The current payment authorisation list is not up to date. Changes have not been made to reflect changes in some officers’ roles (and their authorisation level) and staff that had left the employment of NHS Fife.  
**Risk:** There is a risk that expenditure may be incorrectly authorised and exceed delegated levels of authority.  
**Recommendation:** The payments authorisation list should be updated in a timely manner to reflect changes in roles and payment authorisation levels. | The payment authorisation list is updated as and when we are informed of any changes. We will ensure this is up dated monthly.  
*Assistant Director of Finance (Financial Services)* | Complete - no further issues were noted during our 2015/16 testing. |
| B4  | **Issue:** An aged payments report (ACT 33) is run as part of each payment run. We have been advised that this is checked by the Payments | The Payment Supervisor will sign the paperwork after each payment run. | Complete - alternative controls on outstanding |
### Supervisors in order to identify any outstanding payments which require action, however this check is not evidenced.

**Risk:** The control may not be operating if there is no evidence to support the checks taking place. This may lead to outstanding payments not being processed timeously.

**Recommendation:** All checks undertaken should be clearly evidenced and dated by the certifying officer.

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<td>Supervisors in order to identify any outstanding payments which require action, however this check is not evidenced.</td>
<td>Assistant Director of Finance (Financial Services)</td>
<td>payments are in place therefore this point is considered to be completed.</td>
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### System of internal controls - payroll

**Issue:** The maintenance of all central employment data by the Human Resources (HR) function is critical to provide proper control over payroll payments and employment data. There should be a clear separation between the creation of employee accounts which is mainly an HR function and the subsequent payment to employees.

Due to national delays in implementing the interface between the new HR system, eESS and the new payroll system, ePayroll (we have been advised that this is to go live in June 2015), input of payroll data to the electronic HR system (e.g. new employees, leavers and changes to employment) continues to rely on uploading of the data from the payroll system on a monthly basis. Consequently it is not the HR system which electronically initiates and maintains the employment records for NHS Fife but the payroll system.

**Risk:** While the implementation of eESS and ePayroll remains outstanding, employee details may be incorrectly entered or maintained, which may result in duplicate payments, errors or unapproved changes.

**Update:**

Agreed. Both the Human Resources Directors groups and the Directors of Finance groups nationally are keen to see this progressed. Updates on national picture are given regularly through Staff Governance.

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<tr>
<td>B5</td>
<td>Issue: The maintenance of all central employment data by the Human Resources (HR) function is critical to provide proper control over payroll payments and employment data. There should be a clear separation between the creation of employee accounts which is mainly an HR function and the subsequent payment to employees. Due to national delays in implementing the interface between the new HR system, eESS and the new payroll system, ePayroll (we have been advised that this is to go live in June 2015), input of payroll data to the electronic HR system (e.g. new employees, leavers and changes to employment) continues to rely on uploading of the data from the payroll system on a monthly basis. Consequently it is not the HR system which electronically initiates and maintains the employment records for NHS Fife but the payroll system. <strong>Risk:</strong> While the implementation of eESS and ePayroll remains outstanding, employee details may be incorrectly entered or maintained, which may result in duplicate payments, errors or unapproved changes.</td>
<td>Agree. Both the Human Resources Directors groups and the Directors of Finance groups nationally are keen to see this progressed. Updates on national picture are given regularly through Staff Governance.</td>
<td><strong>Continuing issue</strong> - carried forward to Appendix A point A5.</td>
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### Recommendation: Management should assert pressure to influence a timely implementation of the eESS and ePayroll interface. All employee master data should then be provided by the HR function.

### System of internal controls - capital accounting

#### B6 Issue: In our 2013/14 report, we noted that the process for approving IT equipment requests was inconsistent with requests sometimes supported by equipment request forms and that the absence of equipment request forms for items of IT equipment was contrary to the board’s financial operating procedures (FOPs). We were advised by management that there is no requirement for purchases to be approved by the Assistant Director of Finance (Capital & Planning) before orders are raised and the FOPs would be amended to be consistent with this approach. This update to the FOPs has not yet taken place.

**Risk:** Capital monies could be committed that have not been approved in accordance with the financial operating procedures.

**Recommendation:** Management should ensure that the absence of formal approval of IT equipment request forms does not weaken the control environment and if it does not, should update the FOPs to reflect the actual practice.

The eHealth Capital budget is devolved to the eHealth Department to fully allocate and manage. The agreed break-down of the budget is provided to the Capital Accountant who provides the necessary Financial Codes so orders can be processed by eHealth.

The expenditure is monitored through the monthly Capital reporting process.

The change to the FOPs will be made during the biennial update.

Assistant Director of Finance (Capital & Planning)

June 2016

**Complete** - plans are in place to update FOPs in June 2016, therefore this point is considered to be completed.

### System of internal controls - Family Health Service

#### B7 Issue: NHS Fife receives a monthly advice note detailing the amounts paid on their behalf by National Services Scotland (NSS). A monthly reconciliation is undertaken by NHS Fife’s Ledger Control Manager, to

**The Ledger Control Manager will sign the paperwork after each payment run.**

**Continuing issue** - carried forward to Appendix A point A9.
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<td>ensure that the amounts in the ledger reflect the information in the advice note. This reconciliation is not signed and dated by the preparer.</td>
<td>Assistant Director of Finance (Financial Services)</td>
<td>Immediate</td>
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<td><strong>Risk:</strong> Officers may not be operating the control designed to ensure that the correct amounts paid are posted to the financial ledger. This could result in erroneous reporting of financial activity.</td>
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<td><strong>Recommendation:</strong> The monthly reconciliation should be clearly evidenced and dated by the certifying officer operating the control.</td>
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