

## **Core Financials – Financial Accounting**

### **Internal Audit Report**

**HEIW 2018/19**

**February 2019**

**NHS Wales Shared Services Partnership**

**Audit and Assurance Services**

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## 1. Introduction and Background

In line with the 2018/19 Internal Audit Plan for Health Education and Improvement Wales ('HEIW' or 'the organisation') a review of elements of the core financial systems was undertaken. The review sought to provide assurance to the HEIW Audit Committee that there are effective processes in place to manage the risks associated with elements of the financial systems. On a cyclical basis we will review different elements of the financial systems dependant on risk and prior year audit findings where available.

This report covers the financial accountant element of core financial systems. We will provide a separate report in relation to budgetary control at the next Audit Committee.

HEIW was established as the first Special Health Authority on 5 October 2017 and commenced trading on 1 October 2018. It has brought together three key organisations for health: the Wales Deanery; NHS Wales's Workforce Education and Development Services (WEDS); and the Wales Centre for Pharmacy Professional Education (WCPPE).

HEIW, in line with other health organisations in Wales, is using the Oracle as its financial system. NHS Wales Shared Services Partnership (NWSSP), under a SLA with HEIW, provides a range of services include employment, specialist estates and procurement services. One element of the procurement services SLA is the provision an Accounts Payable function that will in essence input invoices, raise relevant queries and pay invoices on behalf of HEIW. Assurance in relation to work undertaken by NWSSP on behalf of all of NHS Wales organisations would be provided via the NWSSP internal audit plan.

Our review focusses on the internal control framework in operation within HEIW. Specifically, our audit work undertaken in relation to the payment of invoices was the manual *ad hoc* payments that HEIW had processed itself up to December 2018 and not via the NWSSP SLA. When the organisation was formed, it was anticipated that all invoices, including manual *ad hoc* payments would be made by NWSSP as part of the SLA. However, at that time these payments could not be made by NWSSP and HEIW had to process them themselves. Requests were made by HEIW in November 2018 for NWSSP to take over the role of paying *ad hoc* manual payments. We understand that by February 2019 approximately 80% of *ad hoc* manual are now being paid by NWSSP and there is ongoing dialogue between the two organisations in order for a full resolution to be found for all invoices to be paid via the SLA with NWSSP.

The relevant lead for the review is the Director of Finance and Corporate Services.

## 2. Scope and Objectives

The overall objective of the audit was to evaluate and determine the adequacy of the systems and controls in place in relation to the organisation's core financial systems. The review sought to provide assurance to the Audit Committee that risks material to the system's objectives are managed appropriately.

The areas that the review sought to provide assurance on were:

### General ledger

- Access to the financial system, and the ability to make changes to the coding structure, is appropriately administered.
- Procedure guidance is appropriate.
- Journals posted to the general ledger are appropriately authorised and supported with appropriate evidence.
- Reconciliations are appropriately completed and reviewed.
- There are appropriate segregations of duty in place.
- Links from feeder systems are appropriately controlled and the integrity of the data is checked.

### Banking arrangements

- The process for receiving and recording income collected is robust with suitable arrangements for the physical security of cash and cheques.
- Procedure guidance is appropriate.
- There are appropriate regular reconciliations between the bank account, cash book and general ledger.
- There are appropriate segregations of duty in place.
- An authorised signatory list is in place outlining limits and responsibilities.

### Purchasing cards

- Procedures exist for the use of cards and all cardholder have received a copy and have signed to confirm responsibility for use of the card.
- Appropriate limits have been approved for individual card holders that are in line with the overall credit limit that has been set for the organisation.
- Usage is restricted to appropriate suppliers, merchants or retailers.
- There is a division of duties between use of the cards and reconciliation of invoice logs and statements.

- Appropriate controls are in place for the physical security of the procurement cards.

### **Non-current assets**

- Processes have been established to reconcile the asset register to the general ledger.
- Periodic checks are undertaken to ensure items purchased in excess of the capitalisation threshold are appropriately categorised.

### **Ad hoc supplier payments**

- Appropriate authorisation controls are in place for payments.
- Payment request data from the various sources is collated and checked for completeness prior to payments being made.
- Procedure guidance is appropriate.
- Invoices are processed and paid in a timely manner, with any that are 'put on hold', being promptly investigated.

## **3. Associated Risks**

The potential risks considered in the review are as follows:


- Inaccurate records and loss of cash.
- Inaccurate financial data reported due to the integrity of the general ledger not being maintained.
- Corrective action not taken to reduce overspends.
- Inappropriate expenditure.

## **OPINION AND KEY FINDINGS**

### **4. Overall Assurance Opinion**

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report. An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this review.

The level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the core financials system is Reasonable assurance.

RATING	INDICATOR	DEFINITION
<p><b>Reasonable assurance</b></p>		<p>The Board can take <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk</b> exposure until resolved.</p>

The level of assurance provided for this review takes into account that the organisation has only been operating since 1 October 2018. We acknowledge that all staff are new to the organisation and many are new to the NHS and are therefore in a process of transition, working to new working practices and Financial Control Procedures (FCPs).





The FCPs were approved by the Audit Committee in November 2018. Now the organisation has been operational for a number of months, some of the original FCPs may need to be revisited in light of the working practices that are developing, and updated where applicable, whilst having due regards to ensuring appropriate controls remain in place. The FCP's reviewed during this audit include FCP 8 General Ledger, FCP 3 Month End Procedure, FCP 12 Banking Arrangements, FCP 6 Purchasing Cards, FCP 2 Non-Current Assets and FCP 11 Accounts Payable.

Our testing identified a number of discrepancies with regards to *ad hoc* payments, some due to staffing vacancies that existed when the organisation became operational. The organisation still has some vacancies and has seen some finance staff leave the organisation.

The overall level of assurance that can be assigned to a review is dependent on the severity of the findings as applied against the specific review objectives and should therefore be considered in that context.

## 5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

Assurance Summary					
<b>1</b>	General Ledger				✓
<b>2</b>	Banking Arrangements			✓	
<b>3</b>	Budgetary Control				
<b>4</b>	Purchasing Cards			✓	
<b>5</b>	Non-Current Assets				✓
<b>6</b>	Ad-hoc Supplier Payments			✓	

\* The above ratings are not necessarily given equal weighting when generating the audit opinion.

### Design of Systems/Controls

The findings from the review have highlighted two issues that are classified as weaknesses in the system control/design of the core financial systems.

### Operation of System/Controls

The findings from the review have highlighted four issues that are classified as weaknesses in the operation of the designed system/control of the core financial systems.

## 6. Summary of Audit Findings

In this section, we highlight areas of good practice that we identified during our review. We also summarise the findings made during our audit fieldwork. The detailed findings are reported in the Management Action Plan (Appendix A).

### Objective 1: General Ledger

We note the following areas of good practice:

- Appropriate supporting evidence was in place for new and transferred staff's access to the Oracle financial system.

- Appropriate segregation of duties was evident in all areas that we tested.
- The reconciliations that we tested had been completed and authorised in line with month end timetable.

We did not identify any findings under this objective.

### **Objective 2: Banking arrangements**

We note the following areas of good practice:

- The finance department has automated its bank reconciliation process to minimise manual interference.
- We confirmed that month end checklists are in place and were being used.
- Balance sheet code reconciliation summaries had been completed and authorised for the two months that we reviewed.

We identified the following findings:

- At the time of the audit fieldwork there was only one member of staff with access to the safe.
- The banking arrangements FCP does not incorporate any details for dealing with cash or cheques that may be received by the organisation.

Our testing identified some differences between the processes documented in the FCPs and the actual processes followed. Now that the organisation has been in operation for a number of months, the FCPs will need to be revisited.

- There are no procedure notes to support staff in undertaking their roles, and give guidance on the processes to follow on the key systems used.

### **Objective 3: Purchase Cards**

We identified the following areas of good practice:

- Cards had been appropriately used within financial limits.
- Cards were securely held by each card holder.
- There were signed card holder agreements in place for each card that we tested.

We identified the following findings:

- Only half of tested purchase card expenditure summary forms had been approved by a manager.
- One card had been used to make purchases of items where a contract should have been in place.

#### **Objective 4: Non-Current Assets.**

We identified the following area of good practice:

- At the time of the audit fieldwork, the organisation did not have any non-current assets. However, the procedure for a monthly reconciliation has been developed ready for when assets are transferred into HEIW. As good practice in the interim, the reconciliation process is being carried out even though there is a nil balance.

We did not identify any findings under this objective.

#### **Objective 5: Ad hoc Supplier Payments**

We note the following areas of good practice:

- Appropriate levels and limits for the approval of ad hoc payments is in place.
- A payment request form has been introduced for completion prior to each ad-hoc payment being made.

We identified the following findings:

- The Accounts Payable FCP describes manual payments. The only two examples given are utility bills and NHS invoices. However the actual types of manual payment that take place at HEIW are far wider and include as an example payments to lecturers and contractors who are not paid via payroll, pension and HMRC payments. No details are provided around the controls required for these types of payments.
- We tested a sample of *ad hoc* payments to establish if they had been processed accurately. A number of minor discrepancies were noted. We also note that the payment request form does not contain the value that is being authorised, reliance is placed on the backing invoice.

### **7. Summary of Recommendations**

The audit findings and recommendations are detailed in Appendix A together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below.

<b>Priority</b>	<b>H</b>	<b>M</b>	<b>L</b>	<b>Total</b>
<b>Number of recommendations</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>6</b>

**General ledger**

<p><b>Finding 1 - Balance sheet reconciliation checks (Operating effectiveness)</b></p>	<p><b>Risk</b></p>
<p>The month-end FCP states that a sample review of the balance sheet code reconciliations should be undertaken by the Financial Accountant and Head of Financial Accounts by the 25th and by the 30th of each month respectively.</p> <p>The October and November bank reconciliations were reviewed and we identified that due to staff vacancies, it was these more senior staff that were completing and independently reviewing the month end reconciliations. Therefore further sample checks and the completion of the balance sheet code reconciliations table was not being carried out. Whilst segregation of duties has not been compromised, the steps outlined in the FCP have not been undertaken as described.</p>	<p>Inaccurate financial data reported due to the integrity of the general ledger not being maintained.</p>
<p><b>Recommendation</b></p>	<p><b>Priority level</b></p>
<p>A sample review of the balance sheet codes reconciliations should take place once the responsibility of completing the reconciliations has been given to the Assistant Financial Accountant. This will ensure that the department are following the formal month end process as outlined in the FCP. In the mean-time consideration should be given to a peer review of the reconciliations to confirm accuracy.</p>	<p><b>Low</b></p>

<b>Management Response</b>	<b>Responsible Officer/ Deadline</b>
<p>The balance sheet code reconciliations are being undertaken and reviewed. In addition, there is a sample review undertaken by interim Head of Financial Accounting but earlier in the review process than required by the FCP.</p> <p>As regards the banking and other reconciliations being completed by senior staff, this is referring effectively to a Financial Accountant completing but the interim Head of Financial Accounting was reviewing and authorising the reconciliations.</p> <p>The key point is that there is segregation of duty between the person completing and the person authorising the reconciliation – in line with good accounting practice. A sample check is being undertaken on the other reconciliations.</p> <p>The FCP’s will be reviewed on an annual basis as there is currently no significant inherent control weakness.</p>	<p>Martyn Pennell February 2019</p>

**Banking arrangements**

<b>Finding 2 - Financial Control Procedures (Control design)</b>	<b>Risk</b>
<p>The current Financial Control Procedure (FCP) for banking arrangements does not include information about the process and controls for dealing with the receipts, storage and banking of cash and cheques. While we acknowledge that at the time of our fieldwork the organisation had not taken receipt of any cash or cheques, this may change in the future.</p> <p>Our testing in a number of areas covered during the audit has identified differences between the procedures documented in the FCPs and the procedures being followed by staff. In addition to the above, we note as examples:</p> <ul style="list-style-type: none"> <li>• The month end FCP refers to a journal register, when in reality we understand that this does not exist as the controls are within the Oracle financial system. However, the FCP makes reference to recording the journal reference number and Oracle journal reference, suggesting they are two separate things.</li> <li>• The Accounts Payable FCP mentions manual payments, but no details are provided of the controls and processes that should be in place. Whilst at the time of the audit this process was undertaken by HEIW and as at 30 November £9.1m of manual (ad hoc) payments had been made, going forward NWSSP should be taking over this function, however in the meantime the required controls should be recorded in a FCP.</li> </ul>	<p>Working practices are undertaken in an inconsistent manner and not in compliance with the agreed FCPs.</p>

<p>We acknowledge that the FCPs were created at an early stage in the formation of HEIW and will therefore have been based on an element of unknown processes and activity that would not have been clear until the financial system began to operate in earnest. At the time of the audit, there were no desk top procedures in place for staff to use alongside the FCPs, to provide step by step guidance on particular process and systems. Given that the organisation has been formed from employees from three different organisations, there is a risk that a standardised approach will not be adopted and appropriate process not followed.</p>	
<p><b>Recommendation</b></p>	<p><b>Priority level</b></p>
<p>Now that HEIW has been operating for a number of months, FCPs should be reviewed to ensure they are complete and reflect the process being carried out within the organisation, whilst ensuring the expected controls remain.</p> <p>The department should create desktop procedures that outline to staff the process to be followed when performing tasks. This will facilitate a standardised approach to work and can act as guide for new or less experienced staff to use.</p>	<p><b>Medium</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>There is a journal register within Oracle so there is no need for a duplicate hard copy. However, the FCP can be clarified for this point.</p> <p>The manual (ad hoc) payments of £9.1m were processed using the same documentation as required by Accounts Payable. The method of payment is</p>	<p>Martyn Pennell March 2019</p>

different i.e. direct payments rather than BACS but remaining information is the same.

Whilst the FCPs were approved by audit committee in October 2018 with a yearly review process it is agreed that some will be reviewed before the start of the financial year and where necessary updated in light of the audit findings.

Shared services subsequently changed their approach to miscellaneous payments in November 2018 which meant that the payments are now made via Accounts Payable using the same backing documentation. No clarification is therefore required in the FCP as this approach has been used by precursor organisations, in particular, Shared Services, and presumably has been dealt with satisfactorily in the past. Since the audit fieldwork was undertaken, desk top procedures have been written.

<b>Finding 3 - Access and location of safe (Control design)</b>	<b>Risk</b>
<p>At the time of the audit fieldwork there was only one member of staff with access to the safe. Whilst the safe is only used at this time to store smart cards and purchasing cards, the limited access may pose an issue if the cards cannot be accessed when needed.</p> <p>In addition, the location of the safe should be considered as its current location offers no privacy when the access code is input.</p>	<p>Necessary transactions cannot take place.</p>
<b>Recommendation</b>	<b>Priority level</b>
<p>The department should ensure that two members of staff are aware of the access code to the safe to allow access to be granted during times of absence.</p> <p>The current location of the safe should be considered.</p>	<p><b>Low</b></p>
<b>Management Response</b>	<b>Responsible Officer/ Deadline</b>
<p>There has been nothing of value in the safe until the middle of January 2019, when some petty cash has been stored. However, all Financial Accounting staff are now aware of the code to the safe.</p> <p>The location of the safe will be moved to the second floor, where the financial accounts team moved on 26 January 2019.</p>	<p>Martyn Pennell February 2019</p>

**Purchasing cards**

<p><b>Finding 4 – Purchasing card summary form authorisation (Operating effectiveness)</b></p>	<p><b>Risk</b></p>
<p>We tested the transactions made by four purchasing card holders during November 2018. We identified that two cardholders did not have their purchasing card month end transaction summary forms authorised by an approving manager’s signature. While we understand that this was due to the level of seniority of the individuals within the organisation, in order to adhere to the Purchasing Card FCP and ensure transparency, all card holders, regardless of position should have their expenditure summary forms countersigned.</p>	<p>Inappropriate expenditure is incurred.</p>
<p><b>Recommendation</b></p>	<p><b>Priority level</b></p>
<p>All purchasing card transaction summary forms should be approved by the budget holder or line manager as per the Purchasing Card FCP. Where card holders are of a senior position within the organisation, forms should be countersigned by staff member of similar authority.</p>	<p><b>Low</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>This is a very low risk as the level of spend by senior directors is minimal. However, this will be amended going forward.</p>	<p>Martyn Pennell February 2019</p>

<b>Finding 5 - Purchasing card usage (Operating effectiveness)</b>	<b>Risk</b>
<p>Our testing of October and November purchasing card transactions for four cardholders identified two instances where a cardholder had used their purchasing card to buy stationery items from an online retailer. One transaction comprised of four identical orders, totalling £600 and were placed on 30 October 2018. The FCP in relation to purchasing cards clearly states that cards should not be used to purchase items covered by a purchasing agreement or contract. We understand that the online retailer was used as the items were needed urgently. However, a review of the confirmation emails shows that the estimated delivery dates for two of the orders was a month after the order date. The remaining two had estimated delivery dates in the days after the order date. Furthermore, it is unclear why four separate orders were placed, though this may be linked to the reduced single transaction spend that was being instigated for this cardholder.</p>	<p>Value for money is not obtained.</p>
<b>Recommendation</b>	<b>Priority level</b>
<p>Purchasing card holders should be reminded that cards should only be used in circumstances where existing purchasing agreements or contracts are not in place.</p>	<p><b>Low</b></p>
<b>Management Response</b>	<b>Responsible Officer/ Deadline</b>
<p>This is a very low risk but this should be dealt with on a case by case basis. For example, stationery may be required if someone is travelling on business. Such</p>	<p>Martyn Pennell February 2019</p>

purchase would not be on the framework but could still provide value for money overall.

**Ad hoc supplier payments**

<b>Finding 6 - Ad hoc payments (Operating effectiveness)</b>	<b>Risk</b>
<p>As at 30 November 2018 the organisation was processing its own ad hoc manual payments and had processed £9.1m. We tested a sample of ten payments made during October and November 2018 to establish if they had been processed accurately and with the appropriate authorisation.</p> <p>Our testing identified that three out ten cases payment request forms were not on file We understand that these forms did not exist when the organisation initially commenced trading. A payment request form is in now in place that should be authorised by the budget holder and supported by backing documents from the supplier.</p> <p>Given the value of ad hoc payments being made by the organisation, we feel there are weakness in the quality of some of the backing documents being supplied. Whilst some were in the form of detailed invoices, others were emails from individual suppliers with little detail included. Reliance therefore has to be placed on the authorising Budget Holder to recall the services that have been provided and ensure the request for payment is not a duplicate.</p> <p>We note that the payment request form does not record the value of the payment that is being requested for authorisation. The form does have a 'details of payments' box which sometimes has a value recorded, but this was not consistently input. Whilst backing documentation should be attached stating the values, there is a risk that additional backing documents could be attached after</p>	<p>Inappropriate expenditure.</p>

<p>authorisation has occurred. Having the value of the transaction being authorised on the payment request form would act as a control to prevent additional, unapproved invoices being added to the batch and allow there to be an easy check between payment value and authorisation limits.</p> <p>A small number of other issues were identified such as one case where no backing documents were available and one payment was authorised by an officer to be made from a code that they did not have the authority to authorise against. However, we acknowledge that these discrepancies all related to when the organisation had first formed, when the Payment Request form had not been developed and a number of key staff were not in post.</p>	
<p><b>Recommendation</b></p>	<p><b>Priority level</b></p>
<p>Backing documentation provided to support a payment request should be more robust, ideally be in the form of an invoice and include key information including the service that has been provided, the date of service delivery and a breakdown of the costs.</p> <p>All payment request forms should be completed in full with the amount the authorising officer is signing for written clearly on the form.</p>	<p><b>Medium</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>As has been noted the process has firmed up over the period since the start of HEIW. Reassurance is obtained in that the payments can be traced back to the</p>	<p>Martyn Pennell February 2019</p>


correct suppliers and the coding is correct.


It should be noted that all the payments are supported by backing documents and therefore any risk is very low. Indeed it is reassuring that no mis-payments have been identified in this audit.


However, controls can always be improved and the payment request form will be completed in full going forward but the payments can be traced back to the backing documentation.


## Appendix B - Assurance opinion and action plan risk rating

### Audit Assurance Ratings

 **Substantial assurance** - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.

 **Reasonable assurance** - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to **moderate impact on residual risk** exposure until resolved.

 **Limited assurance** - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

 **No assurance** - The Board can take **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **high impact on residual risk** exposure until resolved.

### Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

Priority Level	Explanation	Management action
<b>High</b>	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
<b>Medium</b>	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration.	Within Three Months*

\* Unless a more appropriate timescale is identified/agreed at the assignment.