

Core Financials – Budgetary control

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 Budgetary Control element of the core financial systems. A separate report in relation to financial accounting was reported to the February 2019 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 Oracle as its financial system.

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 – budgetary control. The review sought to provide assurance to the Audit Committee that risks material the system's objectives are managed appropriately.

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

Budgetary control

- Budgets are agreed by budget holders.
- Budgetary responsibility is clearly delegated to budget holders and is consistent with the Scheme of Delegation and limits set up in Oracle.
- Sufficient, relevant, reliable information is available to budget holders, including forecasts of the year-end position.
- The monitoring and reviewing of budgets takes place through structured meetings with budget holders where identified issues are raised.
- Budget information reported to the Board, its sub-committees or external bodies is appropriate, timely and clear.

- Budget virements are correctly processed, including sufficient evidence trail of the transfer and authorisation process, by participating budget holders.

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 – budgetary control is reasonable assurance.

RATING	INDICATOR	DEFINITION
Reasonable assurance		<p>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.</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).

Our testing identified a small number of missing forms that should have been completed to delegate budgets to certain budget holders. For the

forms that were in place, we identified some errors such as the form either not being signed by the required individuals or being signed twice by the same person.

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					
1	Budgetary Control			✓	

* 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 one issue that is classified as a weakness in the system control/design of the core financial systems for budgetary control.

Operation of System/Controls

The findings from the review have highlighted one issue that is classified as a weakness in the operation of the designed system/control of the core financial systems for budgetary control.

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: Budgetary Control

We note the following areas of good practice:

- Detailed additional procedures and forms have been developed to support the Financial Control Procedure for virements.
- Budget reporting, whilst still in its infancy, was taking place at all levels that we reviewed, including the Board, Executive Team, and with individual budget holders.

We identified the following findings:

- A small number of errors were identified in the paperwork completed for delegating budgets, and a number of delegation forms were missing.
- At the time of the audit, due to final budgets not being agreed by Welsh Government, there had been no formal process followed by budget holders to agree and accept responsibility for their delegated budget.

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.

Priority	H	M	L	Total
Number of recommendations	0	1	1	2


Finding 1 – Delegated budget responsibility (Operating effectiveness)	Risk
<p>There are five main budget holders who between them have the delegated responsibility (or deputy responsibility) for 12 budgets. For each of these delegations, a signed 'L1' form should be in place that records the budget codes being delegated, and is signed by person who is being given responsibility for the budget and by the Divisional Director giving the authorisation to delegate the budget.</p> <p>Our testing identified:</p> <ul style="list-style-type: none"> • In four cases the L1 budget delegation forms were not available. (Three relating to the Director or Workforce and one for the Chief Executive). • For one of the forms that we reviewed the same person had signed as both the budget holder to whom the budget was being delegated and the Divisional Director granting the authorisation to delegate the budget. If the individual was being given responsibility for managing a budget, the form should have been signed by the overall budget holder, in this case the Chief Executive. • One form had been signed by a Divisional Director, but had not been signed by the designated budget holder. 	<p>Inappropriate expenditure.</p>


Recommendation	Priority level
<p>To ensure clear responsibility and acceptance of ownership of a budget, L1 budget forms should be in place for all key delegated budgets and should be appropriately completed and authorised.</p>	<p>Medium</p>
Management Response	Responsible Officer/ Deadline
<p>It is agreed that a review of L1 budget delegation forms will be undertaken to ensure that they are complete and appropriately authorised in accordance with the scheme of delegation.</p>	<p>Danielle Neale, Director of Finance and Corporate Services 31 March 2019</p>


<p>Finding 2 –Budget agreements (Control Design)</p>	<p>Risk</p>
<p>At the time of the audit fieldwork, final budgets for 2018/19 had not been agreed by Welsh Government. As a consequence, not all budgets had been fully populated and therefore no formal process was in place for budget holders to agree their budgets at the start of the year. In other organisations we have seen budget holders provided with a copy of their budget breakdown at the start of the year, (or when they take ownership of it) which they are required to sign as acceptance. We consider this to be good practice.</p>	<p>Inappropriate expenditure.</p>
<p>Recommendation</p>	<p>Priority level</p>
<p>Consideration should be given requesting budget holders to formally sign to accept their budget at the start of the financial year.</p>	<p style="text-align: center;">Low</p>
<p>Management Response</p>	<p>Responsible Officer/ Deadline</p>
<p>It is agreed that this will be an important aspect of the budget setting process for 2019/20. It will be key to ensuring that budget holders have authority to commit to expenditure within their delegated budgetary level but also confirm their responsibility managing within it.</p>	<p>Danielle Neale, Director of Finance and Corporate Services 31 March 2019</p>


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
High	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*
Medium	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
Low	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.