

NORTH WESTERN HEALTH BOARD — 2003

Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

This report has been prepared pursuant to Section 6 (4) of the Comptroller and Auditor General (Amendment) Act 1993

During my audit of the North Western Health Board's¹ accounts for year ended 31 December 2003, a number of weaknesses came to my attention in the areas of purchasing controls, the recording of accrued expenditure and the adequacy and management of supporting documentation. I consider that these weaknesses expose the health service to the risk of serious loss. I concluded that the Board's system for controlling purchases and payments is not operating effectively and that the cumulative impact of these weaknesses increases the risk of

- unauthorised and unregulated purchases,
- unauthorised payments,
- duplicated payments, and
- overstatement of creditors and accruals.

I raised these matters with the North Western Health Board and the response of the Chief Officer of the Health Service Executive (North Western Area) has been incorporated in this report.

To reduce the risk of transactions being recorded in error and of fraudulent or irregular payments being processed without detection, the Board's procedures require the segregation of duties between staff who order goods (referred to as "Buyers") and staff who confirm satisfactory receipt (referred to as "Receivers"). In addition, the Board restricts the power to generate purchases on its behalf to authorised Buyers. However, my audit found that

- in many instances², the segregation of duties between Buyers and Receivers was not observed, permitting Buyers both to raise orders for goods and authorise their payment on the financial system. The Board's financial procedures do not provide for compensating controls in these instances, nor were appropriate compensating controls evident in practice. In response, the Chief Officer informed me that, in the case of perishable hospital supplies and computer supplies, the system in use had been changed somewhat from that prescribed in the Board's Financial Regulations. The Chief Officer stated that the system in use still conformed to the basic principles of financial control in that goods are requisitioned under a series of overarching contracts with suppliers, are signed for locally by Receivers and are receipted on the system³ by stores administration staff or by HQ Management Services staff on the basis of the delivery documentation signed by the Receivers. Also, additional electronic controls for checking computer purchases have been put in place. The Chief Officer assured me that in the light of the concerns raised by my audit, the Board will review the adequacy of compensating controls with a view to strengthening the controls, ensuring that where segregation of duties cannot be implemented there is a specific approval process for the variation from the stated controls, and ensuring that the alternative control is fully effective.
- The list of authorised Buyers was out of date. Only 52% of those listed were active in 2003, some had left the Board's employment and others were named as an office or location rather a person. In addition, the audit noted that it was possible for a Buyer to raise purchase orders outside the terms of

¹ References to the North Western Health Board (or the Board), should also be read as referring to its successor organisation, the Health Service Executive (North Western Area) which came into existence on 1 January 2005.

² Transactions examined included purchases of hospital food supplies, computer equipment, hospital medical supplies and equipment, office supplies and equipment, etc.

³ Recording receipt of goods on the system has the effect of authorising payment for them on the system.

his or her authorisation. As a result, the risk of Buyer impersonation is increased and the accountability of individual Buyers is reduced. The Chief Officer advised me that the Board has updated its complete schedule of authorised users, including Buyers, and has amended its set-up procedures to exclude Buyers being named as offices. He expressed the view that the Board had significant expertise in centralised procurement and said that activity in this area was specifically regulated. He accepted that there was an issue in relation to the segregation of buying and receiving and he indicated that the review of compensating controls would address the concerns raised.

- In a significant number of cases (up to 16% in one location) the physical receipt of goods was not properly evidenced in that the Receiver did not sign a Goods Received Note, a supplier docket or a receiving list. The Chief Officer noted my findings and informed me that all Receivers had been reminded of the need to sign the appropriate receipt documentation and that supervisors had been instructed to pay particular attention to this control.

In December 2003, in a report on the audit of the 2001 accounts of the Board, I drew attention to weaknesses in the operation of the purchasing system that resulted in the overstatement of expenditure in the Board's draft 2001 financial statements presented for audit. During 2003 the Board undertook a full reconciliation of supplier statements against the creditors and accrued liabilities⁴ recorded in its books of account. As a result of that exercise the Board amended its draft financial statements with the effect that its accumulated deficit at 31 December 2002 was reduced by approximately €1.6m. At that time, the Chief Officer had assured me that, in future, there would be a stringent focus on observation of and compliance with the Board's policies and control procedures in all areas. Despite these assurances, my audit of the 2003 accounts found that

- the processing of accruals at year end did not always follow the Board's own written procedures. In particular, there was evidence that some expenditure on goods received in 2004 was accrued in the 2003 financial statements.
- Documentation to support the year-end accrual figure was not readily available. In some instances it was produced many months after it was first requested. The extent of missing or inadequate documentation on Board purchases of goods and services and the delay in providing the documents and information requested was such that my audit was delayed significantly as a result.
- In May 2004 the Board's internal auditor reported on his examination of year-end accruals. His findings were broadly consistent with the findings of my audit of accruals.

The Chief Officer stated that, in view of the issues that have arisen, the Board intends to review overall compliance with its governance framework and implement the following proposals within the current year:

- Audit committees in each general management area
- A formal statement from general managers on the application of internal controls in their area of responsibility
- A specific annual response on audit findings from general managers
- Continuous review and assessment of compliance
- Formalised training and accreditation for finance systems users and managers
- The establishment of a dedicated post of Controls Compliance Manager at senior level within the Finance Division of the Health Service Executive (North Western Area). The Manager would be responsible for monitoring the effectiveness of purchasing controls, especially the revisions arising from the review process.

⁴ Accrued liabilities are the aggregate value of expenditure incurred by the organisation on goods and services during the preceding period but not yet invoiced by the year end.

The Chief Officer informed me that documentation is retained at the appropriate physical location to support the evidential requirements of the control, accounting and auditing functions. Much of the delay in producing the information and documentation sought is due to the regrettable lack of clarity on the overall processes involved, especially in the purchases area. The Chief Officer acknowledged that it is clear that there is potential for improved management within the Board of the audit process. He stated that revised arrangements have been put in place throughout the Board to improve the availability of documentation and performance will be monitored as the 2004 audit progresses.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized initial 'J' and a long, horizontal flourish extending to the right.

John Purcell
Comptroller and Auditor General
25 April 2005