

# Use of Consultancy Final Internal Audit Report August 2021

Hywel Dda University Health Board

NWSSP Audit and Assurance

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Review reference:	HDUHB-2122-10
Report status:	FINAL
Fieldwork commencement:	16 <sup>th</sup> June 2021
Fieldwork completion:	30 <sup>th</sup> July 2021
Draft report issued:	9 <sup>th</sup> August 2021 (v1) 11 <sup>th</sup> August 2021 (v2)
Debrief meeting:	10 <sup>th</sup> August 2021
Management response received:	13 <sup>th</sup> August 2021
Final report issued:	13 <sup>th</sup> August 2021
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### Acknowledgement

NHS Wales Audit & Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

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# Executive Summary

## Purpose

The purpose of the review is to establish whether appropriate arrangements are in place for the appointment and monitoring of consultancy services.

## Overview

We identified one high priority matter relating to the absence of appropriate guidance setting out the definition of consultancy engagements and the impact this had on determining the appropriate level of approval required for the expenditure reviewed. This has resulted in a Limited assurance rating overall.

Other matters arising concerned:

- Absence of guidance defining consultancy engagements and setting out the process for these, including approval and coding requirements;
- Incomplete evidence of progress monitoring / post completion reviews;
- Absence of a central record and inaccurate financial coding of consultancy engagements; and
- Consultancy usage / spend is not collectively monitored or reported.

## Report Classification



More significant matters require management attention.

**Moderate impact** on residual risk exposure until resolved.

Trend

n/a

## Assurance summary<sup>1</sup>

Assurance objectives	Assurance
1 Consultancy services are only engaged where necessary and in accordance with standing orders and procurement guidelines	Limited
2 Scope of work is clearly defined and agreed, with regular monitoring being completed	Reasonable
3 Consultancy expenditure is accurately captured, recorded, monitored and reported.	Limited

## Matters Arising

		Control Design or Operation	Recommendation Priority
1	Procedures & Approval of Consultancy Engagements	Design	High
2	Engagement Monitoring	Design / Operation	Medium
3	Record of Consultancy Engagements	Design / Operation	Medium
4	Monitoring & Reporting of Consultancy Usage/Spend	Design	Medium

<sup>1</sup> The objectives and associated assurance ratings are not necessarily given equal weighting when formulation the overall audit opinion

## 1. Introduction

- 1.1 The Use of Consultancy review has been completed in line with the 2021/22 Internal Audit Plan. The relevant lead Executive Director for the assignment is the Director of Finance.
- 1.2 The potential risks considered in the review are as follows:
- non-compliance with Health Board policies and procedures; and
  - failure to obtain value for money due to inappropriate use of consultancy services
- 1.3 The 2020/21 annual accounts reported £1,837,669 spend on consultancy services during the year.

## 2. Detailed Audit Findings

**Objective 1: consultancy services are only engaged where necessary, are subjected to appropriate scrutiny, and are procured and approved in accordance with standing orders and procurement guidelines**

### Policies and Procedures

- 2.1 The Health Board's Standing Orders and Standing Financial Instructions require that the procurement of all goods and services be subject to a fair, objective, and competitive selection process in accordance with good procurement practice. The procurement of consultancy services is subject to the Health Board's financial control procedures, including the requirements of *FP14/01 Requisitioning, Ordering and Receipt for Supplies of Goods & Services* procedure document, which was due for review in May 2020.
- 2.2 Approval requirements for consultancy expenditure are set within the Health Board Scheme of Delegation and somewhat differ to general non-pay expenditure:

	Consultancy	General Non-Pay
<b>Executive Directors</b>	≤ £25,000	≤ £100,000
<b>Chief Executive / Director of Finance</b>	≤ £25,000	≤ £500,000
<b>CEO &amp; DoF</b>	-	>£500,000 ≤ £1,000,000
<b>CEO &amp; Executive Team</b>	>£25,000 ≤ £1,000,000	>£500,000 ≤ £1,000,000
<b>Board</b> (following CEO/ET approval)	>£25,000 ≤ £1,000,000	>£1,000,000
<b>Welsh Government</b>	>£1,000,000	>£1,000,000

- 2.3 We were unable to identify any guidance specifically in relation to consultancy services to support officers in recognising when a service might constitute consultancy, and the process to be followed (including financial coding and approval requirements) where this is the case.

**[See Matters Arising 1]**

### Procurement and Approval of Consultancy Engagements

- 2.4 We selected a sample of eight consultancy engagements from the contracts register maintained by NWSSP Procurement Services (NWSSP-PS) and ledger report for the consultancy subjective code within the ledger. We sought to establish the rationale for using consultancy services and whether the engagement was procured and approved in line with Standing Financial Instructions.
- 2.5 There was evidence of engagement with NWSSP-PS to undertake competitive tender exercise and utilise existing framework agreements with just one exception. The eight engagements reviewed had an approved requisition and purchase order in Oracle. In four cases the requisition and purchase order had been raised retrospectively following commencement of the engagement and/or receipt of associated invoices.

**[See Matters Arising 1]**

- 2.6 As per the stipulations of the Scheme of Delegation (set out at paragraph 2.2 above), all consultancy engagements of £25,000 and above require approval by the Chief Executive, Executive Team and the Board. This applied to six of the eight sampled engagements; however, we were unable establish whether the additional level of approval had been sought in these cases. A further review of this sample highlighted that whilst this expenditure has been coded to the consultancy financial code, due to the lack of clear guidance as what actually constitutes consultancy, at the point of engagement management had interpreted that these could be approved within their normal delegated limits. **[See Matters Arising 1]**

### Conclusion:

- 2.7 There is no procedural guidance in place for consultancy engagements. As a result of the ambiguity in relation to the definition of consultancy, it had been interpreted that the expenditure required approval in line with the normal delegated limits and not the specific requirements for consultancy. Accordingly, we have concluded Limited assurance for this objective.

### **Objective 2: the scope of work, expected outcomes and timescales are clearly defined and agreed, with regular monitoring to ensure these are adhered to**

- 2.8 For each of the eight engagements reviewed a key contract lead had been identified as the owner and point of contact assigned to the management of the engagement.
- 2.9 All had a clearly defined scope of work, which was evident through various documentation including the terms of reference, letters of engagement, terms of business, statements of work, contracts, tendering briefs, specification of work, statement of requirements, project briefs, email correspondence and other relevant documentation. The engagement specification, deliverables, and timescales were clear.
- 2.10 Progress monitoring arrangements varied and in each case were considered appropriate to the size and nature of the engagement, except for one where we were unable to speak with the contract lead to confirm monitoring arrangements in place. We observed examples of

formal documented progress meetings, diarised informal catch ups and email correspondence in relation to co-ordinating of work, progress reviews against key objectives, issues or restrictions arising which may delay delivery of the assignment. However, in some cases there was limited evidence available to support the monitoring and progress reviews being undertaken as they were informal and therefore not documented.

- 2.11 Two of the eight engagements reviewed had concluded with a tangible output, although we are not aware of any formal post completion review to assess whether this satisfied the overall objective and expectations of the engagement. The remaining six engagements were ongoing at the time of our review.

**[See Matters Arising 2]**

#### Conclusion:

- 2.12 We observed examples of progress monitoring arrangements in place although in some cases evidence of monitoring was limited. Consequently, we have concluded Reasonable assurance for this objective.

### **Objective 3: consultancy expenditure is captured and accurately recorded against the correct subjective code to facilitate monitoring and reporting to ensure that expenditure is not excessive**

#### Record of Consultancy Contracts / Expenditure

- 2.13 The review identified that the Health Board does not maintain a central record of consultancy engagements however these are captured via the procurement activity register maintained by NWSSP Procurement Services (NWSSP-PS) and the consultancy ledger code. This subjective code facilitates the identification, monitoring and reporting processes for consultancy spend. The completeness of expenditure recorded against this code is heavily reliant on the accuracy of coding of the requisition/purchase order or invoice (where a purchase order is not raised). **[See Matter Arising 3]**
- 2.14 Our audit work identified, again due to the absence of a procedure providing a clear definition of what constituted consultancy spend, examples where expenditure had been allocated to the consultancy financial code where it has subsequently been highlighted that it is not consultancy and also examples where expenditure should have been allocated to that financial code but had been coded elsewhere. In the absence of a concise definition, there is ambiguity as to what does or doesn't constitute consultancy services and correct classification is reliant on the judgement of the individuals involved in the procurement, management, and financial administration of the engagement. **[See Matter Arising 1]**
- 2.15 At the year-end, the Finance Department undertake a review of all postings to the consultancy ledger code, together with a review of key general ledger codes to identify potential coding errors.

#### Contract Spend

- 2.16 The total value of the contract was identified through a review of the contracts, agreements and other supporting documentation. Reconciliation of the total contract value to the invoices received and paid through Oracle, confirmed that the value incurred to date on each of the engagements as noted in Oracle are either less or in line with the agreed total cost of the assignment. We did not identify any instances where the actual spend exceeded the agreed contract value.

### Monitoring and Reporting of Consultancy Usage / Spend

2.17 We observed examples of reporting to Board in relation to the progress of specific, significant consultancy engagements. We also recognise that contract awards following competitive tender process are retrospectively reported to the Audit & Risk Assurance Committee for noting via the Financial Assurance paper. This will include consultancy engagements, but they are not always identified as such, and excludes engagements via other procurement routes (such as direct award from framework agreements). However, there is no collective monitoring or reporting of consultancy usage and spend. **[See Matter Arising 4]**

#### Conclusion:

2.18 We identified instances where consultancy expenditure had not been correctly identified and coded as such, resulting in under-reporting of consultancy spend. This is due to the lack of clarity as to the definition and characteristics of consultancy engagements and reliance on the individual judgement in classifying spend. This supports the need for Health Board guidance in this area, as highlighted under objective 1. Accordingly, we have concluded Limited assurance for this objective.

## Appendix A: Management Action Plan

Matter Arising 1: Policies & Procedures (Design)	Impact
<p>We were unable to identify any guidance specifically in relation to consultancy services to support officers in recognising when a service might constitute consultancy, and the process to be followed (including financial coding and approval requirements) where this is the case.</p> <p>The eight engagements reviewed had an approved requisition and purchase order in Oracle. In four cases the requisition and purchase order had been raised retrospectively following commencement of the engagement and/or receipt of associated invoices.</p> <p>As per the stipulations of the Scheme of Delegation (set out at paragraph 2.2 above), all consultancy engagements of £25,000 and above require approval by the Chief Executive, Executive Team and the Board.</p> <p>This applied to six of the eight sampled engagements; however, we were unable establish whether the additional level of approval had been sought in these cases. A further review of this sample highlighted that whilst this expenditure has been coded to the consultancy financial code, that due to the lack of clear guidance as what actual constitutes consultancy, at the point of engagement management had interpreted that these could be approved within their normal delegated limits.</p>	<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>• Non-compliance with Health Board policies, procedures and Scheme of Delegation</li> <li>• Consultancy spend is not completely or accurately identified and recorded</li> </ul>
Recommendations	Priority



<p>Procedural guidance in relation to consultancy services should be incorporated into the Health Board’s financial control procedures. This should support Health Board officers in recognising and correctly classifying consultancy engagements and highlight the specific approval requirements as set out within the Scheme of Delegation.</p> <p>Management to ensure that in line with updated guidance enhanced monitoring is in place to ensure that actual consultancy expenditure is appropriately identified and approved in line with the Scheme of Delegation, with any future breaches reported to the Audit &amp; Risk Assurance Committee accordingly.</p> <p><i>We signpost management to the NWSSP-PS <a href="#">Guidance on the Appointment of Consultants</a> available to NHS Wales organisations.</i></p>	<p><b>HIGH</b></p>	
<p><b>Agreed Management Action</b></p>	<p><b>Target Date</b></p>	<p><b>Responsible Officer</b></p>
<ol style="list-style-type: none"> <li>1. We will develop guidance notes on what constitutes consultancy.</li> <li>2. We will report consultancy expenditure to ARAC through our Financial Assurance Report.</li> </ol>	<p>December 2021</p> <p>December 2021</p>	<p>Director of Finance</p> <p>Director of Finance</p>

Matter Arising 2: Engagement Monitoring (Design / Operation)		Impact
<p>Progress monitoring arrangements varied and in each case were considered appropriate to the size and nature of the engagement. We observed examples of formal documented progress meetings, diarised informal catch ups and email correspondence in relation to co-ordinating of work, progress reviews against key objectives, issues or restrictions arising which may delay delivery of the assignment. However, in some cases there was limited evidence available to support the monitoring and progress reviews being undertaken as they were informal and therefore not documented.</p> <p>Two of the eight engagements reviewed had concluded with a tangible output, although we are not aware of any formal post completion review to assess whether this satisfied the overall objective and expectations of the engagement, for example in terms of quality or value for money. The remaining six engagements were ongoing at the time of our review.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>• Consultancy engagements do not achieve intended objectives resulting in failure to obtain value for money</li> </ul>
Recommendations		Priority
<p>Progress monitoring should be formally documented, and post completion reviews undertaken to assess and demonstrate the extent to which the engagement is achieving the overall objective(s).</p>		<p><b>Medium</b></p>
Agreed Management Action	Target Date	Responsible Officer
<p>1. We will include this in the guidance noted in the previous recommendation.</p>	<p>December 2021</p>	<p>Director of Finance</p>
<p>2. We will include assurance on this in the Financial Assurance Report.</p>	<p>December 2021</p>	<p>Director of Finance</p>






Matter Arising 3: Record of Consultancy Engagements (Design / Operation)		Impact
<p>The Health Board does not maintain a central record of consultancy engagements however some are captured via the procurement activity register maintained by NWSSP Procurement Services (NWSSP-PS) and all should be captured via the consultancy ledger code. This subjective code facilitates the identification, monitoring and reporting processes for consultancy spend. However, the completeness of expenditure recorded against this code is heavily reliant on the accuracy of coding of the requisition/purchase order or invoice (where a purchase order is not raised).</p> <p>Our testing identified examples where consultancy engagements were not recorded on the register of procurement activity or captured within the consultancy subjective code in the ledger. Miscodings can result in the under-reporting of consultancy spend within the annual accounts.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>• Consultancy spend is not identified, captured and reported resulting in inaccurate reporting within the annual accounts</li> <li>• Insufficient information to facilitate monitoring of consultancy spend</li> </ul>
Recommendations		Priority
<p>Management should maintain a central register of consultancy engagements to inform the financial coding exercise undertaken by Finance and facilitate monitoring and reporting of consultancy spend. This would also assist the Health Board in ensuring that engagements are subject to the appropriate approval process in line with the Scheme of Delegation.</p>		<p><b>Medium</b></p>
Agreed Management Action	Target Date	Responsible Officer
<p>1. We will address this through the same guide as for previous recommendations and use this to form our reporting to ARAC</p>	<p>December 2021</p>	<p>Director of Finance</p>

Matter Arising 4: Monitoring and Reporting of Consultancy Usage/Spend (Design)		Impact
<p>We observed examples of reporting to Board in relation to the progress of specific, significant consultancy engagements, and recognise that some engagements are reported to the Audit &amp; Risk Assurance Committee as contract awards following competitive tender process. However, there is no collective monitoring or reporting of consultancy usage or spend other than the annual accounts and reporting process, which is high level.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> <li>The Health Board is not aware of consultancy usage or spend</li> </ul>
Recommendations		Priority
<p>Management should consider whether consultancy usage and spend should be collectively reported to and monitored by an appropriate sub-committee of the Health Board.</p>		<p><b>Medium</b></p>
Agreed Management Action	Target Date	Responsible Officer
<p>1. We will report to ARAC through the Financial Assurance Report</p>	<p>December 2021</p>	<p>Director of Finance</p>

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

### Audit Assurance Ratings

We define the following levels of assurance that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	<b>Substantial assurance</b>	Few matters require attention and are compliance or advisory in nature. <b>Low impact</b> on residual risk exposure.
	<b>Reasonable assurance</b>	Some matters require management attention in control design or compliance. <b>Low to moderate impact</b> on residual risk exposure until resolved.
	<b>Limited assurance</b>	More significant matters require management attention. <b>Moderate impact</b> on residual risk exposure until resolved.
	<b>No assurance</b>	Action is required to address the whole control framework in this area. <b>High impact</b> on residual risk exposure until resolved.
	<b>Assurance not applicable</b>	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

### Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
<b>High</b>	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
<b>Medium</b>	Minor weakness in system design OR limited non-compliance. 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. Generally issues of good practice for management consideration.	Within three months*

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



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