

Core Financial Systems (Asset Register Management)

Final Internal Audit Report

April 2024

Cardiff & Vale University Health Board



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Committee:	Audit & Assurance Committee



Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Public Finance & Accountancy in April 2023.

Acknowledgement

NHS Wales Audit and 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 overall objective of this audit was to review the adequacy of the systems and controls in place for Asset Register Management.

Overview

We have issued substantial assurance on this area.

- A financial control procedure and supporting guidance booklet are in place.
- Asset register transactions are correctly stated and adequately supported.
- An annual asset verification exercise is completed.
- Monthly reconciliations to the financial ledger are completed.
- Only two low priority recommendations / advisory points have been raised which are within the detail of the report.

Report Opinion

Substantial



Few matters require attention and are compliance or advisory in nature.

Low impact on residual risk exposure.

Trend



2020/21

Assurance summary¹

Objectives	Assurance
1 Asset Register Financial control procedure	Substantial
2 Up to date asset registers	Substantial
3 Asset register management systems are updated to record additions, movements and disposals	Substantial
4 Assets are periodically verified	Reasonable
5 Assets are accounted for including valuation, depreciation and indexation	Substantial
6 Asset management system is reconciled to the financial ledger	Substantial

¹The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion.

1. Introduction

- 1.1 Our audit review of Core Financial Systems was completed in line with the 2023/24 internal audit plan for Cardiff and Vale University Health Board (the 'Health Board').
- 1.2 Given that previous Core Financial Systems audits have received high levels of assurance, individual areas are now covered on a cyclical basis. Therefore, this year's audit will cover Asset Register Management, which was last audited in 2020/21 with an overall opinion provided of Reasonable Assurance.
- 1.3 Asset Register Management is concerned with the processes in place for identifying, recording, verifying, managing and valuing all assets used by the Health Board.
- 1.4 Since the previous audit in 2020/21 there are now two computer systems operating for asset management due to the implementation of the leasing accounting standard IFRS16. The two systems are:
 - The 'normal' asset register which is governed by the accounting standard IAS16 – the MRI software asset register system; and
 - The MRI software 'Prolease' system for Right of Use assets which are governed by IFRS16.
- 1.5 The Executive Director of Finance is the lead Executive for this review.

Audit Risks

- 1.6 The associated risks for the review were:
 - Information recorded in the asset registers are incomplete or inaccurate, resulting in incorrect disclosure in the financial statements or assets being lost or stolen;
 - Maximum benefit is not achieved from assets, resulting in wasted resources; and
 - Adverse publicity or reputational damage due to not managing assets effectively.

2. Detailed Audit Findings

Objective 1: Arrangements for asset management, including the process for recording asset additions, movements and disposals, is documented within a financial control procedure.

- 2.1 The Health Board has an up to date financial control procedure in place which is detailed and comprehensive, including detailing the process for recording asset additions, movements and disposals. The procedure covers the Capital Asset Register and Capital Lease Register and reflects changes identified during our previous audit of this area.

- 2.2 The financial control procedure is supported by a separate Capital Asset Register booklet which sets out the actions to be undertaken by Clinical Boards and other departments.

Conclusion:

- 2.3 The arrangements for asset management are well documented and include all the relevant information which would be expected. We have provided **Substantial Assurance** for this objective.

Objective 2: The Health Board has up to date asset registers in place that accurately record all assets, including leased assets.

- 2.4 The Health Board uses software by global provider MRI Software for both its traditional fixed asset management and more recently for its leased assets following relevant accounting changes. Both computer systems are designed to enable compliance with all relevant accounting requirements and are used by other Welsh Health Boards.
- 2.5 The software provides a detailed list of all fixed assets and leases enabling the Health Board to record and maintain relevant financial information for each one. It covers all aspects, including additions, disposals, depreciation, transfers, physical location and reconciliation to the financial ledger.
- 2.6 Regular monitoring is undertaken to ensure that all relevant assets are correctly identified including liaising with Planning & Estates, Procurement and Directorate Business Managers.
- 2.7 A full audit trail is maintained within the software and the Health Board has access to MRI Software's support team as required.

Conclusion:

- 2.8 The Health Board has up to date asset registers in place that accurately record all assets, including leased assets. We have provided **Substantial Assurance** for this objective.

Objective 3: The asset register management systems are accurately and promptly updated to record asset additions, movements and disposals.

- 2.9 We reviewed a sample of asset additions, movements and disposals to ensure that supporting documentation was available and that they supported the entries in the asset register management systems. We confirmed that the entries in the asset register management systems were accurately supported and had been promptly updated.
- 2.10 In addition, we queried the total number of disposals as it was significantly higher than when we last audited this area in 2020/21. We were informed that it was due to the following exercises undertaken early in the year:

- As a result of processing the quinquennial revaluation of the estate in the last financial year, there were significant assets with zero gross cost and net book value and so an exercise was undertaken to cleanse the database and dispose of these assets.
- As a result of a point raised by Audit Wales in relation to last year's statutory accounts, an exercise was undertaken to look at all nil net book value equipment and software assets and process the resulting disposals.

Conclusion:

2.11 The asset register management systems are accurately and promptly updated to record asset additions, movements and disposals. We have provided **Substantial Assurance** for this objective.

Objective 4: Assets recorded on the asset registers are periodically verified to confirm their existence and if they are in use.

2.12 The Health Board undertakes an annual asset verification exercise.

2.13 The latest exercise commenced in November 2023 with guidance being sent to all Directorates setting out what they were required to do along with a detailed extract from the asset register summarising their expected assets and including key information such as asset number, description, location and date purchased.

2.14 The Directorates are required to mark against each asset its status according to set guidance such as present, disposed, transferred, missing and should also include information regarding any assets physically present but not included on the list provided.

2.15 Following completion, the updated asset lists should be returned to Finance.

2.16 Prior to sending out the verification requests, Finance prepared a master control spreadsheet summarising all Directorates and the assets expected in each one. This is now used to record which Directorates have returned completed responses and the status of each asset within their responses.

2.17 Where Directorates have not returned responses by the required deadline, they are chased by Finance whose internal management aim is to achieve an overall response covering at least 80% of the Net Book Value of all Health Board assets.

2.18 At the time of our review, 48 verification requests had been sent out to Directorates, and there had been 34 completed responses and overall Net Book Value coverage was on target.

2.19 For a sample of ten Directorates, we obtained the completed responses provided to Finance and confirmed that the master control spreadsheet had been correctly updated in all material respects, although some aspects still required further investigation by Finance.

2.20 In addition, a detailed follow up of the completed responses is undertaken by Finance where queries are investigated, and the asset register is updated to reflect

the changes identified. This is a detailed exercise which will not be completed until after the time of our audit. However, the follow up spreadsheets which have been set up to complete this for each Directorate appear appropriate for the task.

- 2.21 In addition, we undertook sample asset verification at four Directorates where we:
- Confirmed the existence of 37 assets which were shown as present on the Directorate responses to Finance; and
 - Confirmed with the Directorates that their assets with Net Book Cost were in use.
- 2.22 One recurring theme identified from the visits, was that the asset register identification labels were not consistently attached to assets. **(Matter Arising 1 – Low Priority)**

Conclusion:

- 2.23 Assets recorded on the asset register are verified annually and the Health Board has appropriate processes in place to confirm their existence and whether they are in use. However, the follow-up process for the 2023/24 verification still needs to be completed. We have provided **Reasonable Assurance** for this objective.

Objective 5: Assets are appropriately accounted for including valuation, depreciation and indexation.

- 2.24 Our testing for depreciation included reviewing:
- 20 depreciation charges from the asset register and confirmed that they had been calculated correctly; and
 - 10 assets where depreciation had not been charged and confirmed that this was appropriate.
- 2.25 For the depreciation charges, we confirmed that the asset lives were in line with the accounting policy. However, the evidencing of consideration of asset lives could be improved. **(Matter Arising 2 – Low Priority)**
- 2.26 Welsh Government's indexation requirements had been correctly implemented by the Health Board.

Conclusion:

- 2.27 Assets are appropriately accounted for including valuation, depreciation and indexation, although evidencing of consideration of asset lives could be improved. We have provided **Substantial Assurance** for this objective.

Objective 6: The asset management system (the asset register and prolease) are reconciled to the financial ledger on a regular and timely basis.

- 2.28 The asset management system (the asset register and prolease) are reconciled to the financial ledger monthly from June onwards. This is not undertaken for April and May as a reduced set of monitoring returns is completed while closing down the previous financial year.

2.29 Preparation work including running reports and posting journals is undertaken by the Senior Financial Accountant and the formal reconciliations are then completed by the Assistant Director of Finance.

2.30 We checked the reconciliations for two months for both systems and confirmed that they had been completed correctly and that no issues had been identified.

Conclusion:

2.31 The asset management system (the asset register and prolease) are reconciled to the financial ledger on a regular and timely basis. We have provided **Substantial Assurance** for this objective.

Appendix A: Management Action Plan

Matter Arising 1: Asset register identification labels are not consistently attached to assets. (Operation)		Impact																		
<p>We undertook testing to verify a sample of assets within four Directorates. From this we were able to confirm the existence of 37 assets which were recorded as present on the Directorate responses to Finance.</p> <p>However, a recurring theme noted was that asset register identification labels were not consistently attached to assets. Specifically, the findings by Directorate were:</p> <table border="1"> <thead> <tr> <th>Directorate</th> <th>Number of assets tested</th> <th>Number where the asset register identification label was missing</th> </tr> </thead> <tbody> <tr> <td>Toxicology, University Hospital Llandough</td> <td>8</td> <td>1</td> </tr> <tr> <td>Radiology, University Hospital of Wales</td> <td>12</td> <td>9</td> </tr> <tr> <td>Dental Hospital</td> <td>10</td> <td>3</td> </tr> <tr> <td>General Medicine, University Hospital of Wales</td> <td>7</td> <td>7</td> </tr> <tr> <td>Total</td> <td>37</td> <td>20</td> </tr> </tbody> </table>		Directorate	Number of assets tested	Number where the asset register identification label was missing	Toxicology, University Hospital Llandough	8	1	Radiology, University Hospital of Wales	12	9	Dental Hospital	10	3	General Medicine, University Hospital of Wales	7	7	Total	37	20	Potential risk that assets cannot be located and verified.
Directorate	Number of assets tested	Number where the asset register identification label was missing																		
Toxicology, University Hospital Llandough	8	1																		
Radiology, University Hospital of Wales	12	9																		
Dental Hospital	10	3																		
General Medicine, University Hospital of Wales	7	7																		
Total	37	20																		
Recommendations		Priority																		
1.1	An asset register identification label should be attached to each asset unless there is an operational constraint which prevents it. Where this arises, the reason for the exception should be recorded and approved.	Low																		
Agreed Management Action		Target Date																		
		Responsible Officer																		





1.1	Agree with recommendation, exercise to review labelling to be carried out in 24/25	31/3/2025	Rhian Selwood / Helen Lawrence
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Matter Arising 2: Consideration of asset lives. (Operation)		Impact	
<p>We checked a sample of 20 depreciation charges from the asset register and confirmed that the asset lives were in line with the accounting policy.</p> <p>However, while Finance formally discussed the asset lives used by the Health Board with Clinical Engineering, who are responsible for servicing and maintenance of the assets and so have detailed knowledge regarding asset lives, in November 2017, it has not been formally updated since then.</p> <p>Furthermore, a separate review template may not be completed for assets whose lives may differ from the norm.</p>		Potential risk that asset lives applied may not be appropriate.	
Recommendations		Priority	
2.1	<ul style="list-style-type: none"> The normal assets lives review with Clinical Engineering should be brought up to date. A review template should be completed for assets whose lives may differ from the norm. 	Low	
Agreed Management Action		Target Date	Responsible Officer
2.1	<ul style="list-style-type: none"> Asset life review to be carried out in 24/25 with Clinical engineering A process review will be carried out in 24/25 to establish how exceptional asset life is best evidenced. 	31/3/25	Rhian Selwood / Helen Lawrence

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:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	Unsatisfactory assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	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
High	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*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	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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