**ANNEX 1**

**Engagement Planning Memorandum**

**Audit Engagement: ....................................................**

**Date: April 2019……………………**

# Purpose and justification of the engagement

 ‘General Care’ is a state-owned hospital in the capital of the Republic of Angelistan. The hospital has a certain level of autonomy but works with a budget through a service level agreement with the Ministry of Health. The Ministry of Health also has two seats on the Board of the hospital.

General Care has been struggling hard to attract specialist doctors to its hospital. These specialists can earn more money in a private hospital or abroad. However, the specialists who joined General Care since last year are allowed to have a small private practice besides their hospital work. They are not allowed to work for another hospital.

In order to be able to compete with private hospitals, the Board of General Care recently decided to apply for the JCI accreditation. This decision to go for a quality label was widely published by the government last month. Last year a big scandal occurred, when scissors were ‘forgotten’ inside the body of a patient after a surgery.

The limited government budget does not allow General Care to make huge investments. The hospital would like to purchase an additional MRI, as currently patients have to wait up to six months for an MRI scan.

Most treatments and surgeries are covered by the state social security system. However, certain treatments are considered by the Ministry of Health as luxury treatments and are not covered by social security. Only a very limited number of patients have a private insurance. According to the service level agreement, General Care does not have the right to refuse patients.

Normal hospital rooms are for two or four patients. When a patient insists on having a single, private room, the doctors have the right to ask for a higher fee. The extra cost for a private room is not covered by the social security. Patients are also expected to use lockers for their personal belongings. Valuables sometimes disappear, and people are very fast to point a finger towards the hospital staff.

The doctors are very often fighting with the hospital management. The doctors claim that management gives too much priority to bureaucratic measures rather than the health of the patients.

General Care has been quite often in the press. Given this public exposure, internal audit decided to incorporate some processes and challenges in its 2017 internal audit plan.

Additional information:

Many medical service providers, public and private ones, are on the market with an over-supply of the medical services. The number and capacity of the medical service providers are too high compared to the population structure, which is diminishing due to emigration because of the poor economic situation of the country. On the market there are many private laboratories which are working and collecting the analysis from entire country. Also, there are many diagnosis services providers such as MRT, computer tomography, etc

General Care is a small state hospital and it is not far from State Emergency hospital. A State Emergency hospital exists, and it is of very big capacities.

General care has the following structure of the budget:

* 90% from the total budget are from founds from State social insurance company and
* 9 % from private insurance and
* 1 % from extra cost for a private room.

Medical treated cases (patients) produced by the sections:

80 % of the patients - the surgical sections.

1. % for therapeutically sections, which are only 2: hematology and therapy.

The procurement is mainly being done for drugs and blood, also for food.

The organizational structure, staff statistics and information on blood statistics presented in attachments N 1, 2 and 3 respectively.

Two years ago, the Medical care bought one new very expensive equipment: **computed tomography** scan (CT scan), but it is unused yet.

**Secret information:** The computed tomography*scan* is still not in use because there are no specialized doctors and engineers to use this **computed tomography** scan. This info can be seen in the staff statistics (attachment N 2).

The doctors are not happy with the public procurement process and they are complaining on the deficit of blood. It is easily seen in the attachment N 3.

The doctors always complain on pharmacy. There are many drugs there, but not the ones which are really effective (evidence based). This is because the procurement unit is economy- oriented and select the cheapest drugs.

In the pharmacy there are the drugs which were bought 1 year ago but were not used. These specific drugs are 20 % of the total of the annual drugs’ use.

**Business objective**

From the scenario provided, a number of business objectives are identified:

* Drug prescription and consumption should be under control
* Handling of instruments in the surgery room should be well managed
* Finances of the hospital should be in balance
* Patients’ valuables should be protected
* Doctors are eager to work for our hospital
* The hospital is adequately staffed

Based on the business objective *drug prescription and consumption should be under control* the following overall audit objective is defined: assure that *drug prescription and consumption are under control.*

# Description of the activity of the entity and of the audited process

A number of key controls have been identified to address the main inherent risks described below. Those particularly include:

|  |  |
| --- | --- |
| **Inherent risk** | **Key control** |
| Doctors prescribe the wrong drugs | * Medical issue, out of scope for internal audit?
* Automated match between diagnosis and prescribed drugs
* Quality review by medical staff
* Periodical statistics about usage of drugs
 |
| The drugs prescribed may cause problems to the patients | * Medical issue, out of scope for internal audit?
* Patient file contains known allergies and current medicines
* Manual / automated match between patient file and prescribed drugs
 |
| Patients receive different drugs than prescribed | * Nurses will review and sign off patient list with drugs to be given
* Wrong drugs given to one patient will result in no drugs for another patient
 |
| Patients do not receive their drugs | * Review of patient lists
 |
| Patients do receive their drugs but do not take them | * Nurses have to wait until they can be sure that proper drugs have been taken by the patient
* Sign-off on patient list means that drugs have been taken
 |
| Drugs are stolen by patients | * Drugs are stored in a secure place, only accessible by appropriate hospital safe on a need-to-access basis
* Badge or key access only
 |
| Drugs are stolen by hospital staff | * Drugs are stored in a secure place, only accessible by appropriate hospital safe on a need-to-access basis
* No access to drugs by doctors
* Badge or key access only
* Camera surveillance
* Regular inventory count, at least for critical drugs
 |
| Drugs are not available when needed | * Safety stock applied to all drugs
* FIFO approach in order to avoid expired drugs
* Periodical statistics about usage of drugs
 |
| Accounting quantities of drugs do not match physical quantities | * Regular physical stock taking of inventories of drugs
* Analysis of stock variances
 |

# Main risks related to the audited processes

Inherent risks identified for the various processes to be covered by the audit engagement are follows:

* Doctors prescribe the wrong drugs
* The drugs prescribed may cause problems to the patients
* Patients receive different drugs than prescribed
* Patients do not receive their drugs
* Patients do receive their drugs but do not take them
* Drugs are stolen by patients
* Drugs are stolen by hospital staff
* Drugs are not available when needed
* Accounting quantities of drugs do not match physical quantities

# Objective(s) and scope of the audit engagement

## Objective(s)

The objective of the audit is to provide reasonable assurance that drug prescription and consumption are under control. The audit objective can be broken down into several sub-objectives as follows:

* To assure that adequate drugs are prescribed for every patient;
* To assure that the amounts of drugs can be accounted for;
* To assure that access to drugs is well controlled;
* To assure that drugs are at all times available when needed.

To achieve the various audit objectives the auditor needs to assess the controls in the processes involved.

The criteria to be used in the audit will be derived from the following audit reference frameworks:

* COSO Internal Control Framework
* National regulation on medication
* Existing Internal procedures
* Applicable protocols
* Quality handbook

## Scope

The audit engagement will cover the following processes: prescription of drugs, provision of drugs to patients, purchasing of drugs and access to drugs.

# Resources

*The audit will be conducted in line with the audit charter of the audit department of…. To conduct the audit team members with medical knowledge for examination of medical files and data analysts will be required.*

**Attachment 1**

**Attachment 2**

|  |  |  |
| --- | --- | --- |
| ***Staff*** |  |  |
|  | ***Planned staff*** | ***Hired staff*** |
| **DIRECTOR** | **1** | **1** |
| **Deputy director nr.1** | **1** | **1** |
| **Deputy director nr.2** | **1** | **1** |
| **Administrative Department****Including** |  |  |
| * Head
 | 1 | 1 |
| * Accounting
 | 3 | 3 |
| * public procurement
 | 2 | 1 |
| * human resources
 | 2 | 2 |
| **Logistic Department, including** |  |  |
| * head
 | 1 | 1 |
| * canteen
 | 5 | 5 |
| * warehouse
 | 3 | 3 |
| * garage
 | 4 | 4 |
| * general and medical engineering
 | 4 | 2 |
| **Medical units, including** |  |  |
| * laboratory
 | 1 | 3 |
| * image
 | 2 | 1 |
| * surgery
 | 1 | 1 |
| * haematology
 | 1 | 1 |
| * orthopaedics
 | 1 | 1 |
| * gynaecology
 | 2 | 2 |
| * therapy
 | 3 | 3 |
| * reanimation
 | 1 | 1 |
| * pharmacy
 | 1 | 1 |

**Attachment 3**

**BLOOD PRODUCTS**

|  |  |  |  |
| --- | --- | --- | --- |
| N/o | Product name | **2016** | **2017** |
| **Ordered(requested)** | **recieved** | **Ordered(requested)** | **recieved** |
|  | Red Cell Concentrate | 550 | 189,885 | 250 | 218,927 |
|  | Degraded red blood cell concentrate | 400 | 311,7 | 400 | 393,14 |
|  | Platelet concentrate | 100 | 8,6 | 10 | 8,5 |
|  | Freshly frozen plasma | 400 | 129,655 | 200 | 88,325 |
|  | Cryopreciptat | 50 | 0 | 50 | 24 |
|  | Albumin solution 10% - 200 ml | 250 | 113 | 250 | 33,2(166) |
|  | Human normal immunoglobulin | 250 | 140 | 280 | 280 |

| **Audit Programme****Risk and Control Matrix** |
| --- |
| **N** | **Process** | **Inherent Risk (before controls)** | **Risk rating** | **Mitigating Controls/Attributes****(Expected)** | **Tests of design** | **Control Adequacy** | **Tests of implementation** | **X-Ref****Control effectiveness** | **Conclusion** |
| **1** | Prescription of drugs  | Doctors prescribed wrong drugsThe drugs prescribed may cause problems to the patients | High | Medical issue out of scope of internal audit?Automated match between diagnosis and prescribed drugs Quality review by medical staffPeriodical statistics about usage of drugs Medical issue out of scope of internal audit?Patient file contains known allergies and current medicines Manual/automated match between patient file and prescribed drugs |  |  |  |  |  |
| **2** | Provision of drugs to patients | Patients receive different drugs than prescribed Patients do not receive their drugsPatients do receive their drugs but do not take them |  | Nurses will review and sign off patients list with drugs to be givenWrong drugs given to one patient will result in no drugs for another patient Review of patient listsNurses have to wait until they can be sure that proper drugs have been taken by the patient Sign-off on patient list means that drugs have been taken  |  |  |  |  |  |
|  | Purchasing of drugs  | Drugs are not available when neededAccounting quantities of drugs do not match physical quantities |  | Safety stock applied to all drugsFIFO approach in order to avoid expired drugsPeriodical statistics about usage of drugsRegular physical stock taking of inventories of drugs Analysis of stock variances |  |  |  |  |  |
|  | Access to drugs  | Drugs are stolen by patientsDrugs are stolen by hospital staff |  | Drugs are stored in a secure place, only accessible by appropriate hospital staff on a need-to-access basisBadge or key access onlyDrugs are stored in a secure place, only accessible by appropriate hospital staff on a need-to-access basisNo access to drugs by doctorsBadge or key access onlyCamera surveillance Regular inventory count, at least for critical drugs |  |  |  |  |  |