

**This paper relates  
to Agenda Item 9**



**Title / Subject:** Internal Audit Work 2015/16 and 2016/17  
**Meeting:** Integration Joint Board  
**Date:** 24 March 2016  
**Submitted By:** Internal Audit Manager Falkirk Council and  
Chief Internal Auditor NHS Forth Valley  
**Action:** For Decision

## **1. INTRODUCTION**

- 1.1 This report advises the Board of the Internal Audit Financial Assurance work that has been undertaken for 2015/16 and proposes arrangements for the 2016/17 Internal Audit Plan.

## **2. RECOMMENDATIONS**

- 2.1 The Integration Joint Board is asked to:
- (i) note the findings from the Internal Audit Financial Assurance work for 2015/16 and,
  - (ii) approve arrangements for devising and presenting the Internal Audit Plans for 2016/17 onwards.

## **3. BACKGROUND**

- 3.1 Integrated Resource Advisory Group (IRAG) guidance states:

“It is the responsibility of the Integration Joint Board to establish adequate and proportionate Internal Audit arrangements for review of the adequacy of the arrangements for risk management, governance, and control of the delegated resources. This will include determining who will provide the Internal Audit service for the Integration Joint Board and nominating a Chief Internal Auditor.

The operational delivery of services within the Heath Board and Local Authority on behalf of the Integration Joint Board will be covered by their respective Internal Audit arrangements as at present.

A risk based Internal Audit plan should be developed by the Chief Internal Auditor of the Integration Joint Board and approved by the Integration Joint

Board or other Committee. It is recommended that it is shared with the relevant committees of the Health Board and Local Authority.

It is recommended that the Chief Internal Auditor from either of the Health Board or Local Authority fulfil this role in the Integration Joint Board in addition to their role as Chief Internal Auditor of their respective Authority.”

- 3.2 At its meeting on 05 February 2016, the Integration Joint Board agreed that the Chief Internal Auditor role would rotate, on a three yearly basis, between the current postholders within the Health Board and Council. It was agreed that the Health Board Chief Internal Auditor take on this role for the initial three year period. It was also agreed that the resource required to deliver Integration Joint Board Internal Audit Plans would be derived from both the Health Board and Council teams.

#### **4. INTERNAL AUDIT WORK 2015/16**

- 4.1 For 2015/16 Internal Audit work has focussed on the requirements of the Scottish Government guidance on Integration Financial Assurance. In line with the guidance, due diligence of the initial sums was undertaken by the NHS Forth Valley and Falkirk Council Internal Audit teams. This work will also be reported jointly to the Health Board and Council Audit Committees.
- 4.2 In particular, due diligence work has focussed on Section 3.2.1 of the guidance which states that:

“It is recommended that the initial sums should be determined on the basis of existing Health Board and Local Authority budgets, actual spend and financial plans for the delegated services. It is important that the plans are tested against recent actual expenditure and that the assumptions used in developing the plans and the associated risks are fully transparent.

To assist in this it is recommended that:

- The budget in the financial plan is assessed against actual expenditure reported in the management accounts for the most recent two/three years. Ideally, the roll forward of the budget for the delegated services and the actual expenditure over this period should be understood;
- Material non-recurrent funding and expenditure budgets for the delegated services and the associated risks are identified and assessed;
- The medium term financial forecast for the delegated services and associated assumptions and risks is reviewed;

- Savings and efficiency targets and any schemes identified are clearly identified and the assumptions and risks are understood by all partners;
- All risks should be quantified where possible and measures to mitigate risk identified. Risks could be classified as delivery of efficiency savings; on-going risks; emerging risks;
- The amount set aside for the Integration Joint Board consumption of large hospital services is consistent with the methods recommended in the IRAG guidance on the set aside resource and that the assumptions and risks are assessed.”

4.3 The findings from the due diligence work are summarised at Sections 5 to 7 of this report.

## **5. GOVERNANCE ARRANGEMENTS**

- 5.1 Integration arrangements included the formation of a Finance Workstream Group, chaired by the NHS Forth Valley Director of Finance, with membership comprised of Chief Financial Officers of the Falkirk, Clackmannanshire and Stirling Councils along with Senior Finance representatives from each of the above. The Finance Workstream Group reports to the Programme Board which is chaired by the Chief Officer for Stirling & Clackmannanshire IJB. The Finance Workstream Group has oversight of the two sub groups; Sub Group 1 (Methodology and identification and calculation of budgets) and Sub Group 2 (Governance, Assurance and Risk).
- 5.2 We noted good practice in that the two sub groups have in place comprehensive and regularly updated project plans which detail key tasks, lead officers and timescales and issue logs are in use. In compliance with the guidance requirement to ensure partners are aware that the financial regimes, cultures, and terminology differ between Health Boards and Local Authorities, and are clear about the definitions of terms used in their assurance work, a glossary of terminology has been developed to assist partners.
- 5.3 Guidance states that the due diligence process should be based on mutual trust and confidence involving an open-book approach and an honest sharing and discussion of the assumptions and risks. Our discussions with management and our review of the Finance Workstream Group and Sub Group documentation evidenced that regular liaison took place between NHS Forth Valley and Council finance staff and we commend the collaborative approach taken.

- 5.4 The Financial Assurance Guidance stresses at various points the importance of understanding the key risks and assumptions inherent in the budgets and financial positions for the delegated services. It also states that all risks should be quantified where possible and measures to mitigate risk identified.
- 5.5 Whilst work is ongoing to agree a Forth Valley wide Risk Management Strategy and to agree risk registers for both IJBs, all financial risks have not yet been quantified and risks have yet to be reported to allow IJB members to conclude on the adequacy or otherwise of the resources. The Chief Finance Officer for both IJBs has informed us that financial risk will be prominent in the budget papers presented to the March IJB meetings.
- 5.6 Financial Regulations for the IJBs have been drafted and have been circulated for comment through the Finance Workstream Group. The final draft will be presented to the March IJB meetings for approval. The Chief Finance Officer has informed Internal Audit that work on financial reporting is ongoing to ensure it is in line with the requirements of the Integration Scheme.

## **6. INTERNAL AUDIT WORK 2015/16 – FALKIRK COUNCIL**

- 6.1 Our due diligence work focussed on reviewing the processes that were followed in setting the Council's budget allocation to the Integration Joint Board for 2016/17. The net revenue budget of £61.466m was approved by the Council on 17 February 2016.
- 6.2 The methodology followed in setting the Council's budget allocation was reported to the Transitional Board on 04 September 2015. The methodology report included details of all the in scope functions. We were content that this methodology was followed in identifying in scope budgets, expenditure, and variances. The actual resources made available needs to be related to the 2016/17 funding position. For example, Falkirk Council's cash grant has decreased by £10m (3.5%) and it is inevitable that will impact on the Integration Joint Board.
- 6.3 The budget mapping process was on-going from August 2014 and included identifying existing budget information and determining whether the function was in or out of scope. Budget tracking spreadsheets were used to record the impact and details of any subsequent changes to the budget from 2013/14 onwards.
- 6.4 To support integration arrangements a Finance Workstream Group, with two Sub-Groups, was established (see paragraphs 5.1 and 5.2). The detail of any issues or queries that were raised were recorded on the Sub-Group query log. We were content that a robust audit trail around the in scope functions was

maintained and this included review by Social Work to confirm the accuracy and completeness of proposed budget allocations.

- 6.5 In relation to medium term financial forecasting, this was problematic due to the one year financial settlement from the Scottish Government for 2016/17. It is expected that the next settlement from the Scottish Government will be for two to three years and it is recognised that this will significantly facilitate a robust medium term position. The Council identified in its Budget where it thinks savings for the Integration Joint Board should be made.
- 6.6 For financial risk management the approach followed has been to highlight the main factors in relation to the wider economic climate in papers to the Board. For example, key pressures were detailed in the financial update report to the Transitional Board on 05 June 2015. A risk workshop attended by all partners was held on 01 March 2016 and this will result in the presentation of a risk strategy and risk register to the Integration Joint Board.
- 6.7 One outstanding issue relates to the comparability of Falkirk Council's contribution to some of the in scope functions (when compared as a percentage of total spend per head to Stirling and Clackmannanshire). This issue has been recorded as on-going on the Sub-Group query log.
- 6.8 In conclusion, we are content that our due diligence work has confirmed that, in setting the 2016/17 budget for the Integration Joint Board, the Council has been consistent with the requirements of Section 3.2.1 of the Integration Financial Assurance guidance.

## **7. INTERNAL AUDIT WORK 2015/16 – NHS FORTH VALLEY HEALTH BOARD**

- 7.1 The NHS Forth Valley Director of Finance has provided regular Health & Social Care Integration progress updates to the Audit Committee and to the Performance & Resources Committee. Reporting to the Integration Working Group, which includes both Non Executive and Executive membership, has been iterative in that regular update reports have built on information previously reported, with the 2015/16 budget baseline approved for formal sharing with the IJBs on 22 December 2015 by the Performance & Resources Committee. The 2015/16 budget baseline will be used as a starting budget for drafting 2016/17 IJB budgets which is scheduled for consideration at a Special Board meeting on 18 March 2016.

- 7.2 In order to ensure that the IJB budget setting processes undertaken by NHS Forth Valley were appropriate, we examined the *'Integration Joint Board Budget Methodology'* and reviewed a sample of the underlying working papers used to produce these reports. We also discussed the detailed process undertaken with the NHS Forth Valley Director of Finance and Assistant Director of Finance and the IJB Chief Finance Officer.
- 7.3 Principles were established by a methodology paper which was developed and agreed by both Partnerships. An NHS Forth Valley Integration Masterfile spreadsheet was produced to record the previous three years' figures and to track all agreed changes made by the Finance Workstream Group. This spreadsheet has been regularly presented to the Finance Workstream Group and where changes were agreed, they have been made with strict version control. We carried out sample testing of the figures provided to the underlying working papers provided to us and found no exceptions.
- 7.4 Financial Planning for 2016/17 is in progress and the Chief Finance Officer has informed Internal Audit that the intention is for the IJBs to be given a proposed plan around savings and efficiencies, following the NHS Board setting of IJB budgets at the Special Board meeting on 18 March 2016. This aligns with the approach the Local Authorities have taken in budget setting.
- 7.5 We can provide assurance that, in our opinion, the process undertaken to agree the health allocation base budget for 2015/16 has been sufficiently robust and the methodology used sound.
- 7.6 Due diligence has been completed on the baseline budgets for 2015/16, including the amount set aside for IJB consumption of large hospital services, with the remainder of the due diligence work to be completed on conclusion of the Budget Setting process.
- 7.7 As reported in the Audit Scotland report 'Health and Social Care Integration' published in December 2015, the results of the UK spending review were not announced until November 2015 and the Scottish Government published its financial plans on 16 December 2015. Following the Scottish Parliament's approval of the 2016/17 Budget Bill on 24 February 2016, the Cabinet Secretary for Finance, Constitution, and Economy announced initial revenue allocations for 2016/17. The timing of the revenue allocation notification has had an impact nationally on Health Boards' ability to prepare baseline budgets. Therefore, whilst aspects of the IRAG guidance have been addressed through the Finance Workstream, all requirements of the guidance have not yet been fully reported to the IJBs in a way that would fulfil the essence of the guidance i.e. to provide sufficient information to allow the IJBs to assess whether the resources delegated to the IJB are adequate for it to carry out its functions.

## **8. ARRANGEMENTS FOR DEVISING AND PRESENTING INTERNAL AUDIT PLANS FOR 2016/17 AND SUBSEQUENT YEARS**

- 8.1 Internal Audit plans for 2016/17 and subsequent years will require input from the Integration Joint Board Chief Officer, Chief Financial Officer, and External Auditor, as well as the Falkirk Council and NHS Forth Valley Chief Internal Auditors. Preparatory work is required, and a draft Internal Audit 'Universe' has been prepared for discussion between the relevant parties and to facilitate consideration of materiality and risk.
- 8.2 For the moment, the universe is predicated on the assumption that the Internal Audit of operational delivery of services will remain with the NHS Forth Valley and Falkirk Council Internal Auditors, as set out in the IRAG guidance and consistent with s4.1 of the Health and Social Care Integration Scheme for Falkirk, although this may be subject to change as and when the role of the Integration Joint Board evolves.
- 8.3 The Integration Joint Board Chief Internal Auditor will present a draft 2016/17 Internal Audit Plan to the 03 June 2016 meeting of the Integration Joint Board, or to an Integration Joint Board Audit Committee if established before that date. The opportunity will be taken to engage with the Chief Officer and Chief Finance Officer on areas of potential work for inclusion in the 2016/17 Internal Audit Plan. This is likely to include (but not be limited to):
- **Strategic Planning:** review of compliance with elements of the Strategic Plan; and
  - **Governance Arrangements:** including arrangements for Clinical and Care, Financial, Staff, and Information Governance, and overall Corporate Governance including Risk Management, Performance Reporting, and Standing Orders, Financial Regulations, and Schemes of Delegation.
- 8.4 This will allow Internal Audit to provide an early assessment of the robustness of the governance mechanisms in place to control and direct the Integration Joint Board's activities and meet the requirements of both national guidance and the Falkirk Integration Scheme. It will also provide assurance on the extent to which governance documentation and structures of the Integration Joint Board (and the parties) reflect a shared understanding of the Integration Joint Board's role in assurance.
- 8.5 Once the 2016/17 Internal Audit Plan has been approved by the Falkirk Integration Joint Board, details of planned coverage will be made available to the Health Board and Council Audit Committees (as part of existing reporting arrangements).

- 8.6 Following the year end, the Chief Internal Auditor will submit an Internal Audit Assurance Report to the Integration Joint Board (or relevant Committee) reporting on the delivery of the 2016/17 Internal Audit Plan. This will summarise key findings and recommendations, and will provide an opinion on the adequacy and effectiveness of internal control, based on work undertaken.

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Approved for Submission by

**Internal Audit Manager (FC) and Chief Internal Auditor (NHSFV)**

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