

AGENDA ITEM

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**FALKIRK IJB
INTERNAL AUDIT SERVICE**



ANNUAL INTERNAL AUDIT REPORT

2017/2018

Issued To: P Cassidy, Chief Officer
A Templeman, Chief Finance Officer
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Falkirk Integration Joint Board
Falkirk Integration Joint Board Audit Committee
External Audit - E&Y

Date: 18 September 2018

ANNUAL INTERNAL AUDIT REPORT 2017/18

INTRODUCTION AND CONCLUSION

1. The Integrated Resources Advisory Group (IRAG) guidance outlines the responsibility of the Integration Joint Board (the IJB) to establish adequate and proportionate internal audit arrangements for review of the adequacy of arrangements for risk management, governance and control of the delegated resources.
2. This guidance states that the IJB has responsibility for reviewing the effectiveness of the governance arrangements including the system of internal control. To inform this review and the preparation of the governance statement, as stated in the CIPFA framework on Delivering Good Governance in Local Government, Internal Audit is required to provide an annual assurance statement on the overall adequacy and effectiveness of the framework of governance, risk management and control.
3. Guidance issued in April 2017 requires IJBs to prepare their annual accounts and governance statements in accordance with Local Authority Accounts (Scotland) Regulations 2014. These regulations require an authority to:
 - i) be responsible for ensuring that the financial management of the authority is adequate and effective and that the authority has a sound system of internal control which:
 - (a) facilitates the effective exercise of the authority's functions; and,
 - (b) includes arrangements for the management of risk.
 - ii) Conduct a review at least once in each financial year of the effectiveness of its system of internal control.
4. The CIPFA 'Delivering Good Governance' in Local Government Framework 2016 places a responsibility on the authority to ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
5. To inform this review and the preparation of the governance statement, as stated in the CIPFA framework on Delivering Good Governance in Local Government, Internal Audit is required to provide an annual assurance statement on the overall adequacy and effectiveness of the framework of governance, risk management and control. As Chief Internal Auditor, this annual report to the IJB provides my opinion on the IJB's internal control framework for the financial year 2017/18.
6. This review examined the framework in place during the financial year 2017/2018 to provide assurance to the Chief Officer (CO), as Accountable Officer, that there is a sound system of internal control that supports the achievement of the IJB's objectives. It considered:

- ✧ Corporate Governance
 - Clinical Governance
 - Staff Governance
 - Financial Governance
 - Information Governance

7. The 2015/16 IJB Annual Internal Audit Report first recommended that accountability and responsibilities of the IJB in respect of all governance arrangements should be clarified and agreed by the IJB, and thereafter flow through to risk management and assurance arrangements.
8. The Chief Executives of Falkirk IJB and NHS Forth Valley presented papers on integration structures to the 25 June 2018 IJB, which highlighted ongoing areas of disagreement and differing visions for the operation of the IJB where it was agreed that a further paper will be brought back to the next IJB meeting. At this stage of the IJB's development it is of concern that these fundamental issues are still unresolved, and we would highlight that is extremely unusual in our experience for such disagreements to result in two distinct and divergent papers being presented to the IJB Board. However, we do note that the SGHSCD Integration Unit are facilitating a meeting in September 2018 to discuss and resolve these matters.
9. Once a solution is agreed, there will need to be a process to ensure that these are enshrined in the Standing Orders and Standing Financial Instructions of the IJB and the parties and in relevant supporting documentation. The Chief Internal Auditor has provided example key principles which could be developed locally to reflect any agreed. However, the agreement of any principles will be dependent on all parties agreeing a shared vision for integration and cannot be taken forward by the IJB in isolation.
10. The IJB has been dealing with a number of complex issues not least of which is the need for transformative change to resolve the consequences of the changing environment particularly in relation to performance, finance and workforce. As a consequence, a range of governance developments identified within the IJB's own self assessment and through internal and external audit recommendations have not progressed as fully as anticipated. These have been highlighted within the draft Governance Statement presented to the June 2018 Audit Committee.
11. Whilst we recognise that the IJB is still a nascent organisation and that its governance structures are therefore necessarily emergent, it must ensure that its governance arrangements are appropriate to its needs, that they develop with increasing responsibilities, and that there is no drift in the implementation of key actions. However, we would highlight the lack of progress to date and recommend that the IJB Audit Committee is supported to identify the impediments to progress and ensure that these are overcome.
12. Given the divergent views on HSCI governance presented to the 25 June IJB, it may be that the IJB will need to accept that not all developments can be undertaken simultaneously in the context of the many significant priorities the IJB must resolve in partnership with the parent bodies. In the short term, a pragmatic approach may be required in which the IJB prioritises the most important developments with a view to enhancing governance arrangements as the organisation develops, and agreement is sought through intervention by the Scottish Government. It is vital that the Audit Committee continues to regularly monitor progress in implementing agreed actions and understands the consequences of any non achievement.

13. The IJB has produced a draft Governance Statement for 2017/18. Audit Scotland issued a Good Practice Note relating to IJB Annual accounts in April 2018 which commented on the information to be provided in the governance statement and recommended that sufficient information should be provided in the identified developments for the reader to assess the adequacy of improvement actions to be taken. The information provided in the draft Governance Statement fulfils this requirement, albeit no overall conclusion is drawn on the lack of progress to date and the matters referred to above.
14. As Chief Internal Auditor, this annual report to the IJB provides my opinion on the IJB's internal control framework for the financial year 2017/18.
15. Based on work undertaken I have concluded that:

- **Reliance can be placed on the IJBs governance arrangements and systems of internal controls for 2017/18, noting that significant progress will be required in 2018/19 if, in the longer term, the IJB is to achieve its strategic objectives and reach organisational maturity.**

16. In addition, I have not advised management of any concerns around the following:

- **Consistency of the Governance Statement with information that we are aware of from our work;**
- **The format and content of the Governance Statement in relation to the relevant guidance;**
- **The disclosure of all relevant issues.**

ACTION

17. The IJB is asked to **note** this report in evaluating the internal control environment for 2017/18 and **consider** any actions to be taken on the issues reported for consideration.

INTERNAL CONTROL

18. FTF was originally appointed as the IJB's Internal Audit Service in February 2016. We can confirm that FTF complies with the Public Sector Internal Audit Standards (PSIAS). The 2017/18 internal audit plan was approved at the September 2017 meeting of the IJB's Audit Committee. Audit work has been completed in partnership with the Falkirk Council Internal Audit Service, sufficient to allow the Chief Internal Auditor to provide his opinion on the adequacy and effectiveness of internal controls. An Audit Protocol for sharing audit reports between the parties has been under consideration for some time.
19. To inform our assessment of the internal control framework, we developed a governance checklist based on requirements of the Integration Scheme Guidance issued by the Scottish Government to support Health and Social Care Integration and best practice. It was also cross referenced to the requirements of the CIPFA 'Delivering Good Governance in Local Government Framework 2016' and supporting guidance notes for Scottish Authorities. Our update of the checklist for 2017/18 also included a comparison to an example of a local authority governance statement self assessment, the October 2017 Audit Scotland 'Checklist for Councillors and Board members' and the Audit Scotland technical guidance note 2017/10(LA) module 9 on IJBs.

20. A high level Governance Action Plan was originally developed following the assessment at year end 2016/17 and monitored by the Audit Committee during 2017/18. We would recommend that this Action Plan provides greater clarity on whether the action is on track, any remedial action being taken and the effectiveness of that remedial action and we recommend that the removal of any items from the action plan is formally agreed by the Audit Committee. We note that there has been little progress on this action plan and recommend that the outstanding actions are addressed with immediate effect.
21. Based on our validation work, we can provide assurance on the following key arrangements in place by 31 March 2018; and also comment on where further development is needed in 2018/19. Based on our assessment, we also recommend further issues for consideration by management.
22. Our evaluation of the IJB's Governance Framework is summarised below.

Corporate Governance
Key arrangements in place as at year end 2017/18
<ul style="list-style-type: none"> • The Draft Governance Statement has been prepared for 2017/18 as part of the annual accounts process and was presented to the Audit Committee on 25 June 2018. We have commented on the content of the draft Governance Statement, particularly with regard to agreeing overall governance and reporting arrangements; • The IJB's Annual Performance report 2016/17 was presented to the IJB on 4 August 2017 and bi-monthly Performance Reports were presented to the IJB during 2017/18. The Partnership submitted draft local improvement objectives related to the six integration themes to the Scottish Government, in response to the request made by the Ministerial Strategic Group (MSG) for Health and Community Care. Trajectories have been approved by and will be monitored by the Unscheduled Care Programme Board (USPB) which is chaired by the NHS Forth Valley Medical Director; • Review of agendas and minutes of the IJB during the year evidenced that in this second year of operation, whilst there have been developments in adult services, much of the focus of the IJB was on developing strategic objectives and progressing the development of the Integrated Structure; • In addition to presentation of formal reports, the CO provided an update to each IJB meeting on current development within the HSCPs and recommendations for IJB members to approve. Whilst these updates are helpful and we understand the wish to reduce the size of a considerable agenda, we would highlight that they frequently contain a number of matters requiring decision which would normally be taken as separate items on the agenda; • Governance updates were regularly reported to the Audit Committee including the Governance Action Plan paper to the September & December 2017 meeting's and the Governance Action Plan update to the 25 June 2018 meeting; • The Strategic Plan was approved by the IJB in March 2016 and the Local Delivery Plan will flow from the Strategic Plan. The business case outlines a number of the workstreams that feature in the Local Delivery Plan;

- The 1 December 2017 IJB meeting approved the IJB Business Case 2018/19 for submission to Falkirk Council as part of their budget setting process and an update to the Business Plan covering the Adult Social Care element of the budget was provided to the February 2018 meeting. We noted that this did not include the savings options for the Partnership as a whole;
- The Audit Committee covered a number of activities within its Terms of Reference, including:
 - Approving the annual workplan in September 2017;
 - Appointing FTF as Internal Auditors for the second year, approving the Internal Audit Annual plan for 2017/18 in September 2017 and the 2018/19 Internal Audit Plan in June 2018;
 - Approval of the External Auditors 2017/18 audit plan in March 2018;
 - Regularly reviewing and noting Internal Audit progress reports;
 - Monitoring the Governance Action Plan at the February, September and December 2017 and March, June 2018 meetings, albeit as noted above, progress during the year was minimal;
- The last update to the Strategic Risk register was presented to the IJB meeting on 6 October 2017, a verbal update was provided to the December 2017 Audit Committee meeting and updates on Risk Management arrangements were presented to the March and June 2018 Audit Committee meetings;
- A paper on Risk Management Arrangements was presented to the March 2018 Audit Committee meeting. This highlighted that the Audit Committee is not being provided with quarterly updates on the Strategic Risk Register or six monthly updates on the Risk Management Improvement Plan in line with the Audit Committee workplan. Subsequently, the June 2018 IJB meeting received a paper highlighting emerging risk management issues, including capacity for leading on risk management arrangements for the IJB and issues around changes of personnel. At the Audit Committee meeting on 25 June 2018 it was confirmed that:
 - NHS Forth Valley Board would provide a risk management resource to the Chief Officer and Falkirk Council confirmed that their Corporate Risk Coordinator will continue to provide support to the CO;
 - IJB risk management arrangements need to be refreshed and improved and Internal Audit offered to provide consultancy to support this instead of a formal risk maturity review as originally envisaged. An update report will be presented at the next meeting of the Audit Committee in September 2018;
- Directions are the legally binding instrument through which the IJB commissions the constituent authorities to carry out the statutory functions and implement the Strategic Plan. Previous reports to the IJB have noted the need for a review of Directions and this is now the subject of a national review. Amended, but still very broad Directions for 2018/19 were approved by the IJB on 6 April 2018, noting that they may be further amended following further guidance from the Scottish Government. During the year the IJB identified an example of a service change which had not been approved by the IJB, thereby breaching the 2017/18 Directions;

- Membership of the IJB changed during the year and appointments were appropriately approved by the IJB in December 2017 and February 2018;
- An Equality Outcomes and Mainstreaming Report was presented to the IJB on 16 June 2017;
- A joint IJB and the Falkirk Strategic Planning Group (FSPG) workshop was held on 4 May 2018 to seek views on options for review of the current plan. The FSPG met on 11 May 2018 and held a workshop discussion on the terms of reference of the group. The outputs of the session were collated by the Strategic Planning Co-ordination Group, and formed the joint workshop which met in August 2018;
- Board Development Sessions were held throughout the year to provide Board members with an update on a variety of issues including the Community Planning Partner and Locality Planning across Falkirk, Primary Care Locality Work and Falkirk HSCP Locality Working;
- A West of Scotland (WoS) Regional Planning update was provided to the IJB at the April 2018 meeting. The IJB noted that the draft Regional Delivery Plan was prepared by the WoS Regional Planning Team and submitted to the Scottish Government on 31 March 2018. To date there have been three WoS sessions which have brought together Integration Joint Board voting members, Chief Officers, Health Board Chief Executives and NHS Board members. An engagement workshop also took place in February 2018. A further engagement event was scheduled for 28 March 2018, with colleagues who had contributed to the different work streams to date;
- The Governance Action Plan states that the CFO job description is in line with the CIPFA statement on the role of the CFO and that the responsibilities of the CFO are set out in regard to the Annual Accounts and this must be signed off by the CFO on an annual basis. The organisation does not consider it necessary for an annual compliance statement to be completed, however, the CFO will be required to highlight any areas of non-compliance through regular finance reports to the IJB or an exception report to the Audit Committee and/or IJB if required.

Developments originally planned for 2017/18

Many of the areas planned for development during 2017/18 have not yet fully concluded and further developments are now planned for 2018/19.

Our review of progress of development actions originally planned for 2017/18 shows the following:

- A formal agreement setting out the precise responsibilities of the IJBs, NHS Forth Valley Board and the Council in relation to operational activities and the exact nature of the delegation of functions to the IJBs is in development;
- A working group has been set up to take forward the transfer of operational NHS Services to the IJB;
- A special IJB meeting scheduled for 25 June 2018 considered the Integrated Structures and agreed that the Chief Executives and the CO would bring a further report back to the next meeting of the Board, setting out the role of the CO and management structure proposed by NHS Forth Valley, governance arrangements for in scope health functions and principles for hosting with the

risks and benefits of hosting or transferring services to the partnerships. Our view is that any solution should articulate the difference between managerial responsibility given to the IJB CO in this role as a senior member of the management team of both parties and delegation to the IJB as body corporate which would necessarily also devolve responsibility for governance and assurance;

- The IJB's Assurance Framework has not been developed. This area will be audited in internal audit FK05-19 - Assurance Framework which will provide advice on development of the framework and review Board effectiveness;
- As a consequence of the lack of clarity around responsibilities, the review of the Scheme of Delegation, due to be completed by 31 March 2018, was not completed;
- While a comprehensive support services agreement has not yet been completed, a paper setting out the requirements from an IJB perspective was presented to the 6 April 2018 IJB. The IJB approved the proposal that a corporate support agreement would be developed by the Chief Executives and CO for future consideration. An update to the 1 June 2018 IJB highlighted that a corporate agreement aligned to the integration scheme needs to be costed and approved by all parties. This issue has been the subject of a number of reports to the Audit Committee and IJB and is reflected within the Governance Statement Action Plan. A funded proposal is currently being developed by the CFO; it was originally intended for the next IJB meeting in September 2018 but will now come in October;
- Work is in progress to develop workplans/reporting schedules for the IJB and Standing Committees, showing when items of business require to be considered to deliver their purpose and remit of the IJB as well as any additional reporting agreed by members. A workplan is already in place for the Audit Committee and the Clinical and Care Governance Group Group now has an indicative workplan. This work continues to progress;
- It was originally intended that Self Assessments and development of action plans in relation to the four Audit Scotland reports; Health and Social Care Integration (December 2015); Changing Models of Health And Social Care (March 2016); Social Work in Scotland (September 2016); NHS in Scotland (October 2016) would be developed during 2017/18, these have not been undertaken; the March 2018 IJB approved the Partnership Funding and the Investment Plan 2018-2021 following consideration of the Partnership Funding investment plan 2018-2021 at its December 2017 meeting;
- The Annual Performance Report 2017/18 was produced by 31 July 2018, as the next meeting of the IJB is scheduled for September 2018, the draft report was circulated to IJB members for comment in July with agreement to publish delegated to appropriate IJB members and presented to the IJB in September;
- It was envisaged that the Local Delivery Plan (LDP) would be presented to the June 2017 IJB meeting, however to allow incorporation of work on system mapping and medium term planning it was subsequently agreed that the LDP would be presented at a later date. We have now been informed that the focus will be on updating the Strategic Plan, which will mean that the current Strategy will be replaced without ever resulting in a clear action plan for delivery. It is imperative that a clear date for this work should be agreed, monitored and met for the development of an LDP to support the new Strategy;

- The Governance Action Plan states that the CFO job description is in line with the CIPFA statement on the role of the CFO and that the responsibilities of the CFO are set out in regard to the Annual Accounts and this must be signed off by the CFO on an annual basis. The organisation does not consider it necessary for an annual compliance statement to be completed. However, the CFO will be required to highlight any areas of non-compliance through regular finance reports to the IJB or an exception report to the Audit Committee and/or IJB if required;
- Risk Management arrangements are to be revised with Internal Audit providing consultancy support. The Risk Strategy will be reviewed to ensure that the Risk Management Strategy as a whole and arrangements for management of operational risks in particular are consistent with the Risk Management Strategies of the parties;
- A Risk Improvement Plan has yet to be developed and will be informed by the Internal Audit review referred to above. The June 2018 meeting of the Audit Committee was informed that NHS Forth Valley Board will make a risk management resource available to the CO and Falkirk Council has confirmed that their Corporate Risk Co-ordinator will continue to provide support to the CO.

Recommended further issues for consideration by management

Whilst the IJB has already identified the need for a number of important governance developments, we would recommend the following additional actions:

- Whilst we recognise that the IJB is still a developing organisation and that its governance structures are therefore necessarily emergent, it must ensure that its governance arrangements are appropriate to its needs and that they develop with increasing responsibilities. Key to this is that integration governance arrangements should be formally agreed by all parties as a priority, acknowledging that there have been divergent views on this that consensus on the way forward must be identified and used to agree principles for governance and assurance which all parties will embed into their own governance frameworks;
- Work is ongoing to update the Strategic Plan. Once complete, the IJB should work towards identifying operational actions to deliver the strategic plan. Once agreed, these should be imparted to the parties through the setting of detailed Directions;
- In future the Audit Committee should provide a year-end report to the IJB with a conclusion on whether it has fulfilled its remit and its view on the adequacy and effectiveness of the matters within its remit. It may also be helpful at this time of year for the Committee to reflect on any matters of concern and for future consideration;
- Standing Orders and other fundamental governance documents should be subject to regular review to ensure they remain fit for purpose and should be updated following agreement of governance principles;
- The Communications Framework & Protocol was agreed by the IJB at the 24 March 2016 meeting, subsequently followed by the Communications Action Plan presented to the IJB in June 2016. There has been no further update on engagement and communication strategies or Locality Participation and Engagement Plans throughout 2017/18;

- Audit Scotland “Auditing Best Value - Integration Joint Boards” was published in March 2018. Whilst the IJB has a performance management framework in place best value arrangements could be further enhanced by overt reference to the principles and arrangements of best value. We note that the Performance Framework is under development to refine the local indicator set and respond to national requests for performance information, albeit later than anticipated. The Framework will be adapted during 2018 to align with the new Strategic Plan 2019-22.

**Clinical & Care Governance/ Financial Governance/ Staff Governance/
Information Governance and GDPR**

Key arrangements in place as at year end 2017/18

- The Social Work Adult Services Complaints Handling Procedure has been in place since April 2017 and the IJB Complaints Handling Procedure was approved in June 2017 along with the IJB compliance statement and self assessment. Social Work complaints information is included in the IJB Performance Report. Further work is ongoing with NHS Forth Valley to report complaints that relate to in-scope functions, and these will be incorporated into the report to the Board;
- Financial updates were regularly reported to the IJB and included year end forecasts, information on savings delivery as well as information in relation to specific partnership funding;
- The unaudited accounts for Falkirk IJB for 2017/18 were considered by the IJB Audit Committee on 25 June 2018 prior to submission to External Audit. The unaudited annual accounts summary of the 2017/18 financial position, showed an overspend on budget delegated to NHS Forth Valley of £1.593m and an underspend on budgets delegated to Falkirk Council of £0.297m. In line with the risk sharing agreement, a transfer of £0.213m (carried from 2016/17 general reserves) was made and additional funding of £1.380m was received from NHS Forth Valley to achieve the final balanced position. The reserves balance at the year end is £6.490m, made up of £0.297m of general reserves and £6.193m of earmarked reserves;
- GDPR – A report was presented to the IJB at the June 2018 meeting to highlight the key features of the new legislation and set out considerations for the IJB in relation to its responsibilities under the new legislation. Arrangements for Data Protection are to be established;

Finance reports and budget projections were presented to each meeting of the IJB and strategic finance risks are reflected in the IJB Risk Register. The budget continues to be based on an agreed methodology consistent with IRAG guidance, albeit, as with many other IJBs, Large Hospital Set-aside budgets require considerable further development and are awaiting revised national guidance.

Many of the areas planned for development during 2017/18 have not yet concluded and further developments are now planned for 2018/19.

Our review of progress of development actions originally planned for 2017/18 shows the following:

Clinical and Care Governance arrangements were not fully in place throughout the year as follows:

- The Terms of Reference for the Clinical Care and Governance Committee and the Clinical Care Governance Framework (subject to revisions as the integrated operational and locality teams develop) were agreed at the IJB meeting in after the year-end in April 2018;
- Internal Audit FK07-17 - Clinical Care & Professional Governance was presented to the IJB Audit Committee on 16 March 2018 and actions arising from the report were presented to the IJB on 6 April 2018. Agreed actions include consideration of how clinical governance assurances including annual assurances and lines of accountability between the parties and the IJB will be provided and documented, specifically in relation to delegated services; development of a fully resourced plan to implement and monitor the Clinical and Care Governance Framework;
- A Clinical & Care Governance development session met on 1 August 2018.

Recommended further issues for consideration by management

- The IJB should consider raising the profile of the outlined in the risk register and ensuring mitigation activities in relation to the financial stability risk this are reflected in financial reporting with the aim of achieving financial balance in 2018-19;
- A Workforce Strategy and plan for the HSCP should be developed in line with the 'National Health & Social Care workforce plan, a Framework for Improving Workforce Planning for Social Care in Scotland, issued December 2017;
- The agreed risk sharing agreement for overspends between the IJB, Falkirk Council and NHS Forth Valley, required by the Integration Scheme, was for one year only, recognising that the Partnership is in a transitional phase. We recommend that the cost sharing agreement for 2017/18 is reviewed to ensure that it is appropriate and fit for purpose and an agreed approach is formalised for future years which takes into account future developments.

ACKNOWLEDGEMENT

23. On behalf of the Internal Audit Service I would like to take this opportunity to thank the Chief Officer and Chief Finance Officer of the IJB as well as staff within the partnership for the help and co-operation extended to Internal Audit throughout the year.

A Gaskin, BSc. ACA
Chief Internal Auditor

Annual Internal Audit Report - Financial Year 2017/18

Ref.	Finding	Audit Recommendation	Priority	Management Response/ Action	Action by/Date
1.	<p>A high level Governance Action Plan is in place and has been monitored during the year. However, a range of governance developments identified within the IJB's own self assessment and through internal and external audit recommendations have not progressed in line with expectations.</p> <p>Our evaluation of the IJB's governance framework is set out in the body of this report and includes a number of recommended further issues for consideration by management.</p> <p>Whilst the action plan has been monitored throughout the year, there has been no comprehensive, consistent reporting identifying the reasons for the lack of progress and the remedial action which will be taken.</p>	<p>We would recommend that this Action Plan is updated to include:</p> <ul style="list-style-type: none"> the further recommendations made within this report; greater clarity on remedial action being taken and the effectiveness of that remedial action. <p>It is vital that the Audit Committee continues to regularly monitor progress in implementing agreed actions and understands the consequences of any non achievement or slippage in the governance action plan in overall context, particularly in relation to the development and implementation of an updated Strategic Plan and with reference to the capacity and capability available to the IJB.</p>	2	<p>The governance Action Plan will be updated to include the required remedial action. This will include progress and potential impact in the development of the updated Strategic Plan and HSCP capacity.</p> <p>The plan will be submitted to the next Audit Committee on 17 December 2018.</p>	<p>P Cassidy Chief Officer</p> <p>17 December 2018</p>