

# Internal Audit Annual Assurance Report 2021/22 for Midlothian Health and Social Care Integration Joint Board

## 1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:

“The chief audit executive [MIJB’s Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

## 2 Opinion on the Governance, Risk Management and Internal Control

2.1 My opinion is that the Midlothian Health and Social Care Integration Joint Board’s governance arrangements, risk management and systems of internal control are operating satisfactorily. There has been good progress made by Management during the year with the completion of recommendations despite significant ongoing challenges presented by the Covid-19 pandemic.

2.2 The MIJB operates under good public sector practice governance arrangements through its Board and Committee meetings that support scrutiny and transparency of decisions made. There is good compliance by the MIJB of the requirements of the Public Bodies (Scotland) Act 2014 and the guidance through its Directions to Partners (NHS Lothian and Midlothian Council) for the delivery of the services. The vision, strategic objectives and outcomes going forward are reflected following extensive consultation in the Strategic Plan 2022-2025, approved by the Board in April 2022. The MIJB is making continued progress towards delivering integrated Health and Social Care services but has more to do, in common with other IJBs.

2.3 The current MIJB Local Code of Corporate Governance (Local Code), which was approved by the Board on 8 April 2021, sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The Local Code complies with the CIPFA/SOLACE ‘Delivering Good Governance in Local Government Framework’ (2016) in all significant aspects. It reflects the changing context of integration and the appropriate framework for effective governance of the MIJB’s business, including its role as the strategic commissioning body i.e. setting out when responsibility lies with the Board or where reliance is placed on the arrangements in place at its Partners. Governance arrangements in place are generally sound and are being further developed. The Internal Audit high level review and assessment of the Local Code has identified aspects of governance arrangements where some improvement is required.

- 2.4 A Risk Management strategy, reporting regime and risk register highlighting the MIJB strategic risks, mitigating controls, residual risk and accompanying actions have been regularly reviewed, updated and reported during the year to the Audit and Risk Committee to fulfil its oversight role to monitor the IJB's risk management arrangements.
- 2.5 Appropriate medium term strategic or financial planning arrangements are not presently in place resulting in the Board being unaware of the financial measures that need to be taken to bring future budgets into balance and achieve financial sustainability. The budgetary monitoring process has degraded during the year and is not sufficient to allow for effective budget monitoring.
- 2.6 Further improvements in governance, risk management and internal control will be made by Management through the full implementation of previous Internal Audit recommendations. Internal Audit will continue to follow-up on their implementation and present progress reports.

### 3 Scope of the Internal Audit Annual Plan 2021/22

- 3.1 We summarise below the work we have undertaken to obtain assurances over the arrangements in place for each area considered and our conclusions on the effectiveness and appropriateness of these arrangements are listed in section 4.

#### **Local Code of Corporate Governance**

- 3.2 In considering the delivery of integrated services, we carried out a high level review of the Local Code of Corporate Governance to assess compliance with the requirements of the following seven core principles set out in the 2016 CIPFA/SOLACE Framework:

- clarity of roles and responsibilities including arrangements for the operation of Standing Orders;
- behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- ensuring openness and comprehensive stakeholder engagement;
- defining outcomes in terms of sustainable economic, social, and environmental benefits;
- determining the interventions necessary to optimise the achievement of the intended outcomes;
- developing the entity's capacity, including the capability of its leadership and the individuals within it; and
- implementing good practices in transparency, reporting, and audit to deliver effective accountability.

and identified where some improvement is required.

#### **Strategic Planning**

- 3.3 In considering the delivery of integrated services we attended the MIJB meetings to observe planning, approval, monitoring and review activity of the Midlothian Health and Social Care Integration Joint Board's business and performance.

#### **Risk Management**

- 3.4 We carried out a high level assessment of processes for managing and monitoring risks to determine the effectiveness of arrangements for managing uncertainty over the achievement of the strategic objectives of the MIJB.

#### **Financial Management**

- 3.5 We reviewed the effectiveness of processes associated with the financial planning of the resources delegated to the partnership and the monitoring and reporting of financial activities in a transparent manner in accordance with best accounting practice. We reviewed the 2021/22 budgets and monitoring reports in place to enable service delivery within approved budget.

### **Annual Audit Work**

- 3.6 Furthermore Midlothian Council's Internal Audit resources were also deployed in undertaking the following annual audit work for the MIJB during the year:
- **Recommendations Follow-Up Review** (Undertake two reviews. Refer to Section 5 below).
  - **Administration of Audit Scotland Reports** (Monitor publication of Audit Scotland reports and co-ordinate submission by Management of relevant Audit Scotland Reports to the MIJB Audit and Risk Committee / Board).
  - **Audit Committee Self-Assessment** (Provide assistance to Chair in undertaking a self-assessment of the MIJB Audit and Risk Committee against the CIPFA best practice guidance and in implementing any areas of improvement in support of their development).
  - **Attendance at Board / Committee meetings** (Prepare for and attend MIJB Board / Audit and Risk Committee meetings).
  - **Planning for 2022/23** (Update Audit Universe, develop and consult on coverage within the MIJB Internal Audit Annual Plan 2022/23).
- 3.7 For assurance purposes, the MIJB Audit and Risk Committee was made aware of reports by other bodies that relate to the business of the MIJB including those by the Partners' Internal Auditors, Audit Scotland and other national scrutiny and audit bodies.

## 4 Summary Findings and Conclusions arising from Delivery of the Internal Audit Annual Plan 2021/22

### 4.1 Local Code of Corporate Governance

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

- 4.1.1 The Integration Joint Board is a legal entity in its own right and as a public body it should operate under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities.
- 4.1.2 A Local Code of Corporate Governance and Standing Orders have been approved by the Board. These documents encapsulate the public sector good practice principles and by following them the Board demonstrates sound governance arrangements.
- 4.1.3 We conducted a high level review of the MIJB's updated Local Code of Corporate Governance and consider that the Governance arrangements are generally sound, although there is scope for improvement in compliance with some parts of the CIPFA/SOLACE Framework as set out in section 5 below.
- 4.1.4 During the year, the IJB commenced a review of the scheme of integration which, following consultation with Partners, is anticipated to conclude by June 2022.
- 4.1.5 The IJB has taken steps to improve governance arrangements in a number of areas:
- Guidance on public engagement has been developed during the year;
  - A Code of Conduct for Members and an Induction Handbook for new Members were approved in April 2022; and
  - Commencement of a review of statutory governance arrangements which is ongoing.
- 4.1.5 We have made no recommendations in respect of the corporate governance arrangements of the Integration Joint Board in this report.

Conclusion: Governance arrangements in place are generally sound and are being further developed. The Internal Audit high level review of the Local Code of Corporate Governance has identified aspects of governance arrangements where some improvement is required, as set out in Internal Audit recommendations made in previous years or the current year.

## 4.2 Internal Control and Governance – Strategic Planning

Delivering integrated services which are effective and efficient requires an agreed formal statement of the MIJB's vision and intended outcomes and plans as well as exercising strategic leadership to deliver those outcomes.

- 4.2.1 Our attendance at virtual Board meetings and review of the Minutes of meetings which we did not attend continues to indicate that strong strategic leadership is in place and that the Health and Social Care partners are working together in a constructive way.
- 4.2.2 During the year, a Strategic Plan 2022-2025 has been developed and approved by the IJB in April 2022, which sets out the new vision and values for the IJB. Community engagement was at the heart of developing the new Strategic Plan in line with good practice.
- 4.2.3 In the absence of robust medium term financial plans it is unclear whether outcomes can be delivered on a sustainable basis within the resources that will be available.
- 4.2.4 Legislation requires that the specification of what action the delivery partners are required to undertake are set out in formal instructions, referred to as Directions. We did not review the Directions issued by the MIJB for 2021/22 as they will be superseded following introduction of the new strategic plan prior to the completion of our Internal Audit Annual Assurance Report.
- 4.2.5 In common with other Integration Joint Boards, an incremental approach to service change continues to be taken. A significant challenge that all IJBs face is a clear consensus of what a successfully integrated service should look like. This could lead to the development of services that do not fit together as well as they otherwise might have done.
- 4.2.6 We have made no recommendations in respect of governance arrangements in this report. Action required by Management is clearly identified, understood and ongoing.

Conclusion: The MIJB is demonstrating strategic leadership by developing and clearly communicating its purpose and vision and its intended outcomes for service users. The vision, strategic objectives and outcomes are reflected in the Strategic Plan 2022-2025. The MIJB is making continued progress towards delivering integrated Health and Social Care services but has considerably more to do.

### 4.3 Risk Management

Risk management is a process of identifying potential risks to the achievement of objectives in advance, analysing them and taking precautionary steps in order to mitigate those risks, thus managing the effect of uncertainty on objectives.

- 4.3.1 Risk management is an important and integral part of good governance and a system of internal controls. It is crucial that risks to the achievement of outcomes are identified and managed.
- 4.3.2 The MIJB has an approved Risk Management Policy in place which sets out the risk management framework and process, roles and responsibilities, as well as monitoring arrangements.
- 4.3.3 Risk management is an integral part of all activities and must be considered in all aspects of decision making. The standard template for decision-making reports to the MIJB and its Committees includes a section on implications covering risk. When taking a longer-term view with regard to decision making, risks associated with the potential conflicts between the MIJB's intended outcomes and short-term to medium term financial constraints are not particularly well expressed.
- 4.3.4 The MIJB needs to gain assurance on risks associated with delivering services through the partners. Midlothian has recognised that the risks facing the MIJB are those which relates to the MIJB's own business. Operational risks facing the partners are the concern of the partners except and until a partner risk becomes so significant that it would impact upon the MIJB's Strategic Plan. Implicitly this is recognised in the Risk Management Policy in that the partners should regularly bring the relevant risks to the attention of the MIJB.
- 4.3.5 The MIJB maintains a risk register which is reviewed regularly by the relevant risk owners, scrutinised by the MIJB Audit and Risk Committee at its quarterly meetings and reported every quarter to the Board to ensure that the MIJB is kept informed of its key risks and the actions undertaken to manage these risks. The risk register is comprehensive and responsibilities for managing individual risks are clearly allocated.
- 4.3.6 We have made no recommendations in respect of risk management arrangements in this report.

Conclusion: Effective risk management processes are in place. There is an opportunity to assess the content of the MIJB Risk Register against the Strategic Plan 2022-2025 that has been developed and approved to ensure the MIJB Risk Register reflects the strategic risks facing the MIJB against the achievement of objectives and priorities set out in the Strategic Plan and the potential financial constraints.

## 4.4 Financial Management

A strong system of financial management is essential for the successful implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

- 4.4.1 Midlothian IJB had developed a Financial Strategy covering the period 2019-2022. The Financial Strategy has now expired though work is ongoing to develop a successor. A Medium Term Financial Plan covering the period 2020/21 to 2024/25 is in place but requires updating and extending, as the assumptions on which it is based are no longer relevant and need reconsideration in light of the new Strategic Plan. Completion of this work is important to ensure that the new Strategic Plan is delivered on a financially sustainable basis.
- 4.4.2 The IJB's budget setting amounts to agreeing the budget offers from the Partners, then allocates the equivalent annual budget to the Partners. It is not clear how the Health and Social Care Partnership's operational budget management aligns the financial consequences of MIJB Directions and the annual budget that supports the outcomes set out in the MIJB's Strategic Plan.
- 4.4.3 NHS Lothian serves four different Integration Joint Boards and, in some service areas, costs are apportioned across the MIJBs. Work is still ongoing to move towards allocating costs based on actual activity of each IJB.
- 4.4.4 During the year, the Board has received, with the exception of the first quarter, financial updates on the expected outturn for the year. Information is provided at a very high level with single figures provided for Health (Core, Hosted and Set Aside). No figures have been provided for Social Care. A high level commentary is also provided. Whilst acknowledging the strategic governance role of the Board, the information provided is not sufficient to allow for effective budget monitoring. We have been assured that the style and content of budget monitoring reports will revert to that previously provided during 2020/2021 and accordingly make no recommendation.
- 4.4.5 Financial management procedures do not provide assurance that services delivered represent value for money and that resources are being used efficiently and effectively as specified in National Outcome 9. This view is supported by our work on Corporate Governance. The annual self-assessment against the updated MIJB Local Code has concluded that value for money arrangements within the IJB require further development. In the meantime, reliance will be placed on the value for money arrangements within the partner organisations.
- 4.4.6 At the December 2021 meeting, the Audit and Risk Committee agreed to recommend to the Board the adoption of the CIPFA Financial Management Code, in so far as it applies to the operation of the IJB subject to a further report regarding how the FM Code would apply to the IJB and how assurance would be sought on it. In March 2022, it received a report which concluded that *"some standards do not apply to the IJB and, of the rest, the IJB is delivering against them. That said, this analysis highlights that the development of the multi-year, balanced, financial plan is critical."*
- 4.4.7 We reviewed the assessment undertaken by the Interim Chief Financial Officer to support this conclusion and found that to the extent that the CIPFA Financial Management Code applies to the IJB and with the exception of matters referred to below, compliance with the various sections of the code is either partial or not adequately supported by evidence to confirm full compliance. The most significant areas are:
- Insufficient evidence is available to confirm full compliance with Part L: (engagement with key stakeholders in developing the long-term financial strategy, medium-term financial plan and annual budget) and Parts A and M: (demonstrate the value for money of its decisions);

- We do not consider arrangements in place during the year comply with the CIPFA Financial Management Code in respect of:  
Part E: (The financial management style of the authority supports financial sustainability);  
Part F: (The authority has carried out a credible and transparent financial resilience assessment);  
Part G: (The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members);  
Part I: (The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans).

4.4.8 We have made one recommendations in respect of financial management processes in this report.

Conclusion: Appropriate medium term financial strategy and medium term financial plans are not presently in place. The Board is unaware of the financial measures that need to be taken to bring future budgets into balance and achieve financial sustainability. The budgetary monitoring process has diminished during the year. The financial information provided to the Board is not sufficient to allow for effective budget monitoring. Present financial arrangements in place do not comply with the CIPFA Financial Management Code in a number of significant areas.

## 5 Recommendations Follow-Up Reviews

- 5.1 The Internal Audit Follow-up of Completed Recommendations Report, arising from the first follow-up review, was presented to the MIJB Audit and Risk Committee in June 2021. This showed good progress with the completion of recommendations with evidence of improved internal controls and governance, and reduced risk.
- 5.2 The second review of progress by Management in implementing Internal Audit actions by the expected date was presented in the Internal Audit Recommendations Progress Report to the MIJB Audit and Risk Committee in December 2021. There were six outstanding recommendations relating to the update of the Strategic Plan and alignment of Directions, the development of the Performance Management Framework and the development of Workforce Plans.



## 6 Recommendations and actions arising from Internal Audit Annual Plan 2021/22

6.1 Recommendations in reports are suggested changes to existing procedures or processes. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

### Ratings for Recommendations

**High** – Arising from a finding which leaves the MIJB open to a very high risk of not achieving its strategic objectives, and where the risk is sufficiently significant to require immediate action within one month of formally raising the issue.

**Medium** – Arising from a finding which leaves the MIJB open to significant risk of not achieving its strategic objectives requiring reasonably urgent action within three months of formally raising the issue.

**Low** – Arising from a finding which leaves the MIJB open to moderate risk of not achieving its strategic objectives requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations.

Recommendation	Rating	Agreed Management actions	Responsibility and timescale
1 Management should update its Financial Strategy to address significant deficits indicated in the Medium Term Financial Plan 2021/22 – 2024/25 and refresh its Medium Term Financial Plan.	Medium	The Medium Term Financial Plan for the IJB will be developed and this will allow the financial strategy to also be reviewed and updated.	December 2022 & March 2023

## 7 Public Sector Internal Audit Standards (PSIAS)

7.1 The 2021-22 self-assessment of practices against the professional standards PSIAS (2017) has indicated that Midlothian Council's Internal Audit function 'Fully Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, the Attribute Standards and the Performance Standards.

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