

Chief Internal Auditor's Annual Assurance Report and Opinion 2018/19 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, based on our reviews, risk assessments and knowledge, the MIJB's governance arrangements, risk management and systems of internal control are adequate.

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 by them in line with the MIJB Strategic Plan. Improvements are required to clearly show how the Directions link to the specific objectives stated in the latter.

2.3 The MIJB's Local Code of Corporate Governance has been updated during the year and the format significantly revised by Internal Audit with MIJB Management to ensure this key document complies with the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016) and continues to be relevant and complete by reflecting 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. The content and format of the Annual Governance Statement should reflect the annual review of compliance with the updated Local Code. The updated MIJB Local Code of Corporate Governance will be submitted for scrutiny by the MIJB Audit and Risk Committee, with the recommendation that it is approved by the Board thereafter.

- 2.4 The budget monitoring process is sound in that the Board receives a financial report at each meeting by consolidating financial data held within Midlothian Council's and NHS Lothian's financial systems. Information is provided at very high level reflecting the strategic governance role of the Board. Midlothian IJB has developed a Financial Strategy covering the period 2019-2022. This is an important step and precursor to the production of a medium term financial plan though this is not yet in place.
- 2.5 Adequate performance monitoring arrangements have been developed to enable the MIJB to monitor the performance of Health and Social Care services in Midlothian though these are the delivery Partners own performance measures. The indicators in use will provide an indication of progress in some areas although they will not provide the full picture of whether integration is being achieved. Improvement is required to align the performance measures in the MIJB's Performance Management Framework to key priorities and outcomes of the Strategic Plan.
- 2.6 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 Board and its Audit and Risk Committee, the latter to fulfil its oversight role to monitor the IJB's risk management arrangements.
- 2.7 Further improvements in governance, risk management and internal control have been agreed by Management as highlighted in Section 5. Internal Audit will continue to follow-up progress on their implementation and provide periodic progress reports.

3 Scope of the Internal Audit Annual Plan 2018/19

- 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.

Internal regulation of the Integration Joint Board

- 3.2 In considering the delivery of integrated services we undertook a separate review the MIJB's Corporate Governance arrangements to ensure compliance with the requirements of the 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.

Delivering integrated services which are effective and efficient

3.3 In considering the delivery of integrated services we performed the following work:

- assess arrangements in place to deliver services to meet the needs of service users and the strategic priorities for health and social care integration set out in the Strategic Plan.
- attend the MIJB meetings to observe planning, approval, monitoring and review activity of Midlothian Health and Social Care Partnership business and performance.

Managing financial capacity and budgetary processes

3.4 We carried out the following work to determine the effectiveness of the financial management arrangements:

- assess the MIJB's financial governance arrangements in place to perform and account for its financial activities in an honest, legal and transparent manner in accordance with best accounting practice.
- review processes in place to ensure appropriate accountability for financial management of financial resources delegated to the partnership and to facilitate the delivery of efficient and effective services, including progress in achieving efficiencies.

Improving effectiveness and delivering a high quality of service for users

3.5 Our assessment below is based the following audit work, carried out to determine the effectiveness of performance management arrangements. This included:

- assess whether there is appropriate alignment of performance measures in the MIJB's Performance Management Framework to key priorities and outcomes of the Strategic Plan 2016 – 2019.

Managing the effect of uncertainty on objectives

3.6 We carried out the following work to determine the effectiveness of arrangements for managing uncertainty;

- consider key areas of risk for the MIJB and.
- assessment of processes for managing and monitoring risks

3.7 Furthermore Midlothian Council Internal Audit function resources were also deployed in undertaking the following Annual Audit work for the MIJB during the year:

- **Recommendation Follow-Up Reviews** (Two reviews were undertaken: The first noted performance against closing issues by the agreed due date while the second included a sample check on the adequacy of actions taken against issues which are flagged as closed, to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving control, risk and governance).

- **Assessment of Internal Audit against PSIAS** (Refer to Section 6 below).
- **Help Desk Enquiry System** (Guidance and advice was provided on request to Management on governance and internal controls).
- **Planning for 2019/20** (Development of the MIJB Internal Audit Annual Plan for 2019/20).
- **Attendance at MIJB Audit and Risk Committee** (Provision of independent Internal Audit assurance, support and advice).

3.8 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 reports by the Scottish Government.

4 Summary Findings and Conclusions arising from Internal Audit Annual Plan 2018/19 Delivery

4.1 Internal regulation of the Integration Joint Board

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 were approved by the Board .These documents encapsulate the public sector good practice principles and by following them the Board will demonstrate sound governance arrangements.
- 4.1.3 At the time that our audit fieldwork was being conducted, a review and update of the MIJB Local Code of Corporate Governance was being undertaken and a self-assessment was being planned against the revised Local Code.
- 4.1.4 We therefore conducted a high level review the MIJB's existing Scheme of Integration and Local Code of Corporate Governance. We consider that Governance arrangements currently in place are generally sound, although there is some scope for improvement in compliance with some parts of the CIPFA/SOLACE Framework.
- 4.1.5 Certain aspects of the foregoing are referred to in this report where relevant.
- 4.1.6 We have made no recommendations in respect of internal regulation of the Integration Joint Board in this report.

Conclusion

The MIJB has made substantial progress towards operating under good public sector practice governance arrangements. Arrangements currently in place are generally sound. The self-assessment of the Local Code of Corporate Governance will provide an opportunity to identify aspects of governance arrangements where improvement is required.

4.2 Delivering integrated services which are effective and efficient

Delivering integrated services which are effective and efficient requires an agreed formal statement of the MIJB's vision and intended outcomes and plans for the delivery of those outcomes.

- 4.2.1 The MIJB is required to exercise strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for service users.
- 4.2.2 Our attendance of Board meetings and review of the Minutes of meetings which we did not attend indicated that strong leadership is in place and that the Health and Social Care partners are working together in a constructive way.
- 4.2.3 The MIJB has developed and consulted upon the authority's purpose and vision. The vision, strategic objectives and outcomes are reflected in the Strategic Plan. The strategy underpins a common vision which is understood and has been agreed by all partners.
- 4.2.4 Community engagement has been at the heart of developing the Strategic Plan. Feedback from various consultation events, forums and other channels of communication has influenced the objectives and priorities set out in the Strategic Plan in line with good practice.
- 4.2.5 Linkages within the Strategic Plan to the national outcomes set out by Scottish Government are not particularly clear making it difficult to relate local objectives to national objectives.
- 4.2.6 The Strategic Plan is articulated through an Annual Delivery Plan. The MIJB has developed a Delivery Plan for 2018-19 that provides valuable insight into the challenges it faces and what its priorities are. The plan sets out the key actions for the year but does not assign responsibilities or timescales. Required outcomes are not always set out in quantifiable terms.
- 4.2.7 In the case of some actions, but not all, a detailed plan will sit below the delivery plan which does set out more detail of what action is required and who is required to deliver these actions. For example, client group plans, Primary Care Improvement Plan, Extra Care Housing Plan and the Realistic Care Realistic Medicine project plans.
- 4.2.8 During the course of our audit fieldwork, preparations were being made for a replacement Strategic Plan, which was nearing the end of its life, and the Strategic Plan 2019-2022 has since been approved.
- 4.2.9 Legislation requires that the specification of what action the delivery partners are required to undertake are set out in formal instructions to Midlothian Council and NHS Lothian. These instructions are referred to as Directions.
- 4.2.10 We reviewed the Directions issued by the MIJB for 2018-19 and noted that whilst high level and not prescriptive nevertheless follow the Good Practice Note on Directions issued by Scottish Government in terms of their form and content.

4.2.11 Directions are instead based on a set principles which have been distilled over time. These principles are:

- A stronger emphasis on prevention being adopted by all services.
- The development of a shared approach to risk across all parts of the pathway.
- An increased emphasis on people being supported and treated at home.
- A move towards more Realistic Care and Realistic Medicine.
- A move towards more open access and seeking to reduce waiting lists.
- Diagnosis and treatment being provided in hospitals where these can only safely be provided in hospital settings.
- Improved partnership working across all services.

4.2.12 Our review of Directions issued for 2018-19 reveal a number of common themes:

- There are clear linkages to Relevant National Health and Wellbeing Outcomes and to the Strategic Plan but not the Annual Delivery Plan. It is not clear however whether the Directions cover all aspects of the Strategic Plan.
- Directions are not consistently supported by project plans which are more prescriptive in nature and contain the detail necessary to achieve the required outcome. Where detailed project plans are not in place there is an increased likelihood that:
 - the respective responsibilities of the partners are not defined in the case of joint directions; and
 - outcomes are not properly specified in quantifiable terms.

4.2.13 A significant challenge that the MIJB faces is the lack of a masterplan which describes what a successfully integrated service should look like. In common with other Integration Joint Boards an incremental approach to service change is being taken. The absence of reference could lead to the development of services that do not fit together as well as they otherwise might have done. The Workforce Planning Framework which is focused on aligning integrated service provision to the key strategic plan areas will be covered as part of our Internal Audit work planned for 2019/20.

4.1.14 We have made 2 recommendations in respect of delivering integrated services which are effective and efficient in this report. These are set out in Section 5 (*Recommendations 1 and 2*).

Conclusion

The MIJB is demonstrating strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for service users. The vision, strategic objectives and outcomes are reflected in the Strategic Plan 2019-2022. The MIJB is making progress towards delivering fully integrated Health and Social Care services but there is still a long way to go.

4.3 Managing financial capacity and budgetary processes

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment is operating effectively.

- 4.3.1 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.
- 4.3.2 The MIJB prepares its financial statement and budget monitoring reports by consolidating financial data held within Midlothian Council's and NHS Lothian's financial systems. In the case of the Council, extraction of data is relatively straight forward as Adult Social Care expenditure is all delegated expenditure and financial transactions are held within well-defined cost centres. NHS Lothian reports along medical directorate lines which makes the extraction more difficult, although this difficulty is overcome effectively by the use of mapping tables.
- 4.3.3 NHS Lothian serves four different Integration Joint Boards and, in some service areas, costs are apportioned across the MIJB's using the NRAC %. Work is ongoing to move toward allocating costs based on actual activity of each IJB.
- 4.3.4 The Board receives a financial report at each meeting although information is provided at very high level with single figures provided for Health (Core, Hosted and Set Aside) and Social Care, reflecting the strategic governance role of the Board. A high level commentary is also provided.
- 4.3.5 The IJB allocates an annual budget back to partners. The Health and Social Care Partnership operational budget management includes realigning budgets where required to capture the financial consequences of MIJB Directions or service reconfiguration with the intention of having an annual budget that supports the outcomes set out in the MIJB's Strategic Plan. Cost reduction associated with service reconfiguration is reflected through the transformation programme which was approved by the IJB. For operational budget monitoring and control purposes greater detail is received by the Realistic Care Realistic Medicine transformation group.
- 4.3.6 Midlothian IJB has developed a Financial Strategy covering the period 2019-2022. This is an important step and precursor to the production of a medium term financial plan. The Strategy recognises very significant financial challenges over the next two years and that a shift in approach is required using an anticipatory approach routed in prevention rather than treatment. It also introduces the idea that in future financial resources will be viewed as a pool and not those separately of Midlothian Council and NHS Lothian and identifies, in broad terms, how efficiencies are to be delivered by making more effective use of resources.

- 4.3.7 A medium term financial plan is necessary to integrate and balance service priorities, affordability and other resource constraints. The MIJB does not have a Medium Term Financial Plan although indicative budgets are set out in the Financial Strategy for three years. These indicative budgets however do not recognise the impact of transformation, efficiency savings or cost pressures and have limited value for planning purposes. We recognise that this is challenging due to partners budget offers being for 1 year reflecting their funding settlements being for 1 year, though commitment has been made by the Scottish Government to support medium term financial planning.
- 4.3.8 It was not clear how the financial management procedures 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 of Corporate Governance has concluded: Value for money arrangements within the IJB require further development. Reliance will be placed on the value for money arrangements within the partner organisations. The Audit Scotland report on Auditing Best Value for IJBs was presented to the IJB Audit and Risk Committee in March 2019.
- 4.3.9 We have made 1 recommendation in respect of managing financial capacity and budgetary processes in this report. This is set out in Section 5 (*Recommendation 3*).

Conclusion

The budgetary monitoring process is sound although its value for control purposes is limited by the absence of costed service provision. Appropriate medium term financial planning arrangements are not yet in place.

4.4 Improving effectiveness and delivering a high quality of service for users

Performance management is concerned with developing and maintaining a strategic and integrated approach to improving the effectiveness of the organisation in delivering a high quality of service for users which represents value for money.

4.4.1 Effective performance management relies upon:

- reliably measuring and monitoring relevant aspects of service delivery and outcomes on a timely basis in order to ascertain areas which are performing significantly better or worse than expected; and
- taking appropriate action to secure improvement.

- 4.4.2 The MIJB needs to ensure that it has an effective performance management system that facilitates effective and efficient delivery of planned services.
- 4.4.3 Establishing appropriate key Performance indicators (KPIs) is an essential part of the planning process in order to identify how the performance of services is to be measured. Monitoring performance through KPIs is also vital in determining whether desired outcomes are being achieved.
- 4.4.4 The National Health and Wellbeing Outcomes (issued by Scottish Government) provide a strategic framework for the planning and delivery of health and social care services. They are high-level statements of what health and social care partners should be attempting to achieve through integration and ultimately through the pursuit of quality improvement across health and social care. There are 9 National Health and Wellbeing Outcomes.
- 4.4.5 The delivery Partners have performance monitoring and reporting controls of their own in operation although it is not clear how the partners' achievements in respect of delivery are being measured.
- 4.4.6 Current reporting to the Board is based on indicators that the Scottish Government Ministerial Group assigned in December 2016 within the Annual Performance Report. Other Performance Reports were presented to the Board for monitoring and control of achievement of Local Improvement Goals, though this requires further development. There is not full alignment of performance measures in the MIJB's Performance Management Framework to key priorities and outcomes of the Strategic Plan. The indicators in use will provide an indication of progress in some areas although they will not provide the full picture of whether integration is being achieved.
- 4.4.7 It was not clear from the MIJB's Performance Management Framework how the quality of services it commissions for users is to be measured nor how the information, needed to review service quality, will be collected. The annual self-assessment against the updated MIJB Local Code of Corporate Governance has concluded: The IJB places reliance on Service quality reviews which are performed and undertaken by the Partners. Independent assurance is gained from external inspection bodies.
- 4.4.8 The MIJB publishes an annual performance report as required by legislation which outlines progress against national objectives.
- 4.4.9 We have made 1 recommendation in respect of improving effectiveness and delivering a high quality of service for users in this report. This is set out in Section 5 (*Recommendation 4*).

Conclusion

The Performance Management Framework at present is not fully developed and requires more work in order to be an effective mechanism to monitor delivery of integrated services.

4.5 Managing the effect of uncertainty on objectives

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.

- 4.5.1 Risk management is an important and integral part of a performance management system. It is crucial that risks to the achievement of outcomes are identified and managed.
- 4.5.2 The Risk Management Policy was approved by the MIJB in February 2016. It sets out the risk management framework and process; roles and responsibilities; as well as monitoring arrangements.
- 4.5.3 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. We found numerous instances however where reference is simply made to inclusion in the risk register rather than articulating the specific risk associated with the decision being made.
- 4.5.4 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.
- 4.5.5 The MIJB needs to gain assurance on risks associated with delivering services through the partners. Unlike some other IJB's, 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 risks to the attention of the MIJB.
- 4.5.6 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 MIJB is kept informed of its key risks and the actions undertaken to manage these risks.
- 4.5.7 We reviewed the risk register and found that it is comprehensive and responsibilities for managing individual Risks are clearly allocated.
- 4.5.8 We have made no recommendations in respect of managing the effect of uncertainty on objectives in this report.

Conclusion

Good progress has been made in developing and maintaining effective risk management processes.

5 Recommendations and actions arising from Internal Audit Annual Plan 2018/19 Delivery

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 Linkages within the Strategic Plan should clearly relate local objectives to national objectives. Similarly linkages between Directions issued by the MIJB and the Delivery Plan or supporting detailed action plans should be also be established.	Medium	This will be incorporated within the Annual Delivery Plan 2019/20, other detailed action plans, and Directions, as appropriate.	Chief Officer October 2019
2 The Delivery Plan should contain more detail regarding action to be taken in terms of what is to be done as well as how, by when and by whom it is to be achieved. How outcomes are to be measured should also be defined. Alternatively, this detail could be set out detailed action plans which sit below the Delivery Plan. If this approach is to be adopted then all actions contained in the Delivery Plan should be supported by a detailed action plan. The MIJB should also consider developing annual plans for commissioning services.	Medium	As above	As above

Recommendation	Rating	Agreed Management actions	Responsibility and timescale
3 The MIJB should develop a Medium Term Financial Plan.	Medium	There is a financial strategy for 2019-2022 in place. Currently a longer term rolling financial plan is being developed	Chief Finance Officer June 2019
4 Performance measures in the MIJB's Performance Management Framework should be more appropriately aligned to key priorities and outcomes of its Strategic Plan.	Medium	This will be incorporated within the Performance Reporting during 2019/20.	Chief Officer October 2019

5 Public Sector Internal Audit Standards (PSIAS)

- 5.1 The 2018/19 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, and has confirmed that improvements have been put in place since the External Quality Assessment peer review by Highland Council in March 2018.

Jill Stacey BA(Hons) ACMA CGMA
MIJB Chief Internal Auditor
12 May 2019

