

Internal Audit Report on Financial Assurance for money delegated to the Integrated Joint Board

Report by Internal Audit Manager

1. Purpose of the Report

The purpose of this report is to provide the Midlothian Council Audit Committee with an opinion on the assurance work that has been carried out on the funds to be delegated to the Integrated Joint Board (IJB) by Midlothian Council for the provision of Health and Social Care for the financial year 2016/17. A similar report is being prepared by the NHS Lothian Audit team over the financial assurance process undertaken by NHS Lothian on the funds that they are also transferring to the IJB.

2. Background

Under the Public Bodies (Joint Working) (Scotland) Act 2014, and associated regulations, Local Authorities and Health Boards are required to set up an integration authority and to delegate health and social care functions to it. In June 2015, the Midlothian Integration Scheme was given approval by the Scottish Government and the Midlothian Integrated Joint Board was formed in August 2015.

The Scottish Government's guidance on Integrated Joint Boards recommends that partners to the integration schemes conduct a process of financial assurance on the amounts to be delegated to the Integrated Joint Board and that the internal auditors of each partner give an opinion on the assurance process that has been undertaken.

The financial assurance process is intended to ensure the budgets for delegated functions are calculated on a reasonable and consistent basis and that the process used is in accordance with Scottish Government guidelines.

3. Approach

The Terms of Reference for this audit had 8 control objectives and we have examined each of these individually reviewing for evidence and concluding where there is sufficient evidence to do so.

3.1 To determine whether the proposed allocated budget from Midlothian Council to the Integrated Joint Board (IJB) is aligned to those service budgets which are to be delegated.

- All services within Adult and Social Care are identifiable and all functions in that service have been transferred to the IJB.

Conclusion

Budgets were found to be aligned to the service budgets delegated.

- 3.2** To determine whether the methods and assumptions in calculating the budgets to be transferred are consistent with previous years and were subject to appropriate challenge.
- standard procedures for preparing budgets are in place and were being followed;
 - prior years budgets and projected outturn figures are used in the preparation of budgets;
 - demographic pressures are assessed through comparison of actual spend, using judgement and experience to inform future expectations;
 - budgets are developed with input from service management and are reviewed by Financial Services management, and the Head of Finance and Integrated Service Support, before being approved by Council.

Conclusion

The methods and assumptions used in the calculated budget transferred were found to be consistent with previous years and have been appropriately challenged.

- 3.3** To determine whether material non-recurrent funding and expenditure budgets for delegated services and the associated risks are identified and assessed.
- Non recurrent funding is not a material feature of Midlothian Council's budget, but one off funding for specific purposes is identified and monitored individually.

Conclusion

One off funding for specific purposes is identified and monitored.

- 3.4** To determine whether savings and efficiency targets and any associated schemes have been clearly identified and the assumptions and risks tested and validated.
- Savings of £414,000 in respect of Health and Social Care have been approved by Midlothian Council on 8 March 2016.
 - These savings have been detailed in budget reports, and assumptions and risks challenged during the budget approval process.
 - During testing, we have considered the historic performance of savings delivery and the factors that have led to overspends.

Conclusion

Savings and efficiency targets have been clearly identified and the assumptions and risks tested and validated. There is also evidence that the Council has delivered on past savings targets.

- 3.5** To determine whether the medium term financial forecasts for the delegated services and associated assumptions and risks have been reviewed.
- The Scottish Government adopted a one year budget and grant settlement for 2016/17 and published details of both on 16 December 2015. It is also currently anticipated that a three year budget and grant settlement will be adopted for 2017/18 to 2019/20, with details emerging in the autumn of 2016.
 - In January 2016, the Scottish Government clarified an additional £250m of funding for Social Care which would be paid to IJBs via the Health Service. This funding equates to £3.6m for the Midlothian IJB and is being directed towards new social care initiatives, support for the Scottish Living Wage and revision of charging thresholds.
 - As a consequence, and in anticipation of future budget settlements being equally challenging, it was not considered prudent to prepare medium term financial forecasts beyond 2016/17.
 - However, the Council's budget model does include forecasts of material budget elements such as contractual inflation, pay inflation, etc.

Conclusion

It has not been possible for Midlothian Council to prepare medium term financial forecasts for future years given the one year grant settlement.

We note however the Head of Finance and Integrated Service Support's intention to provide the IJB with medium term forecasts for the Strategic Plan once a medium term settlement is published by the Scottish Government.

- 3.6** To determine whether Scottish Government Guidance has been used and followed in relation to financial governance, financial assurance and risk assessments (including the Integrated Resource Advisory Group's guidance).
- The Midlothian Integration Joint Board has appointed a Chief Officer, Chief Finance Officer and Chief Internal Auditor in accordance with Scottish Government guidance. The membership of the Board itself and the Board's Risk and Audit Committee are in accordance with the guidance. It is planned to implement quarterly financial monitoring, and produce annual audited accounts. The external auditor has also been appointed.
 - The reports on financial assurance issued to Council in June 2015, December 2015, and March 2016 follow the methods

outlined in the guidance issued by the Scottish Government, in considering existing Council Budgets, actual spend and plans for the initial year.

- Risks are being managed at a corporate and service level. The financial assurance reports delivered to Council to date have identified a number of risks that may affect Midlothian Council.
- Council reports make clear that financial assurance would be a process which will continue into 2016/17.

Conclusion

The process of financial assurance has followed the guidance published by the Scottish Government. We did identify however that although the risks to Midlothian Council have been identified in submitted reports, these have not been recorded on the Council's risk management system (Covalent) and thus do not clearly record the mitigating controls and actions required to bring the risk to an acceptable level within the Council.

(1) Recommendation – the Head of Finance and Integrated Service Support should ensure that Covalent is updated to record and monitor the risks identified in the financial assurance reports (i.e. loss of flexibility in controlling budgets for delegated functions, financial and demographic pressures and the disparity of sizes between Lothian IJBs) along with details of mitigating controls and actions to bring these risks within Midlothian Council's risk appetite This has a target completion date of 30 June 2016.

3.7 To determine whether risk sharing agreements are in place between the parties which clearly define responsibilities in the event of the IJB exceeding the established budgets.

- The Integration Scheme outlines the process for dealing with the risk of overspends. In the first instance, when monitoring indicates that an overspend is arising, the relevant party should develop recovery plans to address the overspend.
- If an overspend cannot be avoided, and there are no reserves available to cover the overspend, the partners may make additional payments to the IJB, or as an alternative, consider making additional payments based on agreed percentages with repayment in future years .
- The IJB has made proposals that in the first year there would be a principle of no cross-subsidisation established, with each partner retaining responsibility for their own overspends. However, this is not stated in the Integration scheme or in a Risk Sharing Agreement. There has been correspondence between the Chair of the IJB and the Finance Director of NHS Lothian seeking to clarify this point.

Conclusion

The Integration Scheme details the process that would be undertaken should there be a dispute over funding or other matters. In addition it is reported that partners have discussed, and there is general acceptance, that there should be no cross-subsidisation between the partners in 2016/17. This is intended to assist in mitigating financial risks to the Council. This approach is in line with Integrated Resource Advisory Group (IRAG) Guidance, which recommended that the first year/period is treated as a transitional period, and that partners agree to a risk sharing arrangement with adjustments being made through subsequent year's allocations. However there is a risk associated with the lack of a formal agreement in relation to cross-subsidisation in the event of overspends and each partners' financial liability in the first year of operation.

(2) Recommendation – the Head of Finance and Integrated Service Support should continue to work with the Chief Finance Officer of the IJB and the Director of Finance of NHS Lothian towards a common understanding of responsibility for overspends in the first year of operation, and record this in a written Risk Management Agreement. This is expected to be completed by 30 June 2016.

3.8 To determine whether regular reports on financial assurance have been presented to Midlothian Council and the IJB.

- There have been three reports to Midlothian Council on Financial Assurance in June 2015, December 2015, and in March 2016. Copies of the Financial Assurance reports to the Finance and Resources Committee of NHS Lothian were attached to each of the 2015 reports.
- A further Financial Assurance report is planned to be presented to Midlothian Council in June 2016.
- The risks identified in these reports include: financial pressures, particularly those affecting health, risks related to the sharing of pan-Lothian services, risks relating to the disparity in sizes of the Lothian IJBs and the loss of flexibility in controlling the budgets transferred to the IJB.

A Financial Assurance update report has been presented to each of the meetings of the shadow IJB and the IJB.

Conclusion

Regular reports on Financial Assurance are being presented to Midlothian Council and the IJB.

4. Audit Opinion

It is our opinion that the process of Financial Assurance carried out by Midlothian Council has followed the guidelines laid out by the Scottish Government and therefore has followed an adequate assurance process.

We have made 2 recommendations in paragraphs 3.6 and 3.7 relating to the management of risk.

5. Report Implications

5.1 Resource

There are no direct resource implications arising from this report.

5.2 Risk

There is a potential risk of a lack of compliance with Scottish Government Guidelines.

5.3 Single Midlothian Plan

Themes addressed in this report:

- Community safety**
- Adult health, care and housing**
- Getting it right for every Midlothian child**
- Improving opportunities in Midlothian**
- Sustainable growth**
- Business transformation and Best Value**
- None of the above**

5.4 Key Priorities within the Single Midlothian Plan

This Report does not directly impact on the key priorities within the Single Midlothian Plan.

5.5 Impact on Performance and Outcomes

The financial assurance process is central to the way the Council has delegated its limited financial resources to the IJB for the delivery of delegated responsibilities.

5.6 Adopting a Preventative Approach

Delivering Health and Social Care through a joint board is intended to strengthen the delivery of preventative approach.

5.7 Involving Communities and Other Stakeholders

This report has been discussed with senior management from Midlothian Council.

5.8 Ensuring Equalities

There are no equalities issues with regard to this report.

5.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

5.10 IT Issues

There are no IT issues with regard to this report.

6. Recommendations

The Audit Committee is therefore asked to:

- a) note the contents of this report;
- b) to approve the recommendations made in the report.

7. Appendices

1. Terms of Reference

6 April 2016

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TERMS OF REFERENCE
Financial Assurance

Audit Objective and Scope

Audit Objective

To review the financial assurance process undertaken by Midlothian Council on the preparation for amounts to be delegated to the Integrated Joint Board for the provision of Health and Social Care for the financial year 2016/17.

Scope of Audit

The following areas are included within the scope of the Audit:

- the proposed allocated budget from Midlothian Council to the IJB is aligned to those services budgets which are to be delegated;
- the method and assumptions in calculating the budgets to be transferred are consistent with previous years and is subject to appropriate challenge;
- material non-recurrent funding and expenditure budgets for delegated services and the associated risks are identified and assessed;
- savings and efficiency targets and any associated schemes have been clearly identified and the assumptions and risks tested and validated;
- the medium term financial forecasts for the delegated services and associated assumptions and risks have been reviewed;
- Scottish Government Guidance has been used and followed in relation to financial governance, financial assurance and risk assessments (including the Integrated Resource Advisory Group guidance);
- Risk sharing agreements are in place between the parties which clearly define responsibilities in the event of the IJB exceeding the established budgets; and
- Regular reports on financial assurance have been presented to the Council and IJB.

Exclusions and Limitations

This audit excludes performance monitoring against budget which will be reviewed in 2016/17 Internal Audit Plan.

Potential Risks

Potential risks include:

- insufficient budget available for delivery of the Strategic Plan leading to potential overspends on the allocated budget;
- demographic pressures are not accurately assessed; and
- savings and efficiencies used in calculating the budget are not realistic, accurately calculated and clearly communicated to the Integration Joint Board.

Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any reports to Council and Integration Board;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;

- draft and final reporting; and
- presentation of the final report to the Audit Committee.

Timescales & Reporting

The audit will commence in January 2016 and will be reported to the Audit Committee of Midlothian Council in March 2016. A copy of the report will be shared with the Audit Committee of the Midlothian Integration Joint Board.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

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