

NHS TAYSIDE/ PERTH & KINROSS COUNCIL  
INTERNAL AUDIT SERVICE



**HEALTH AND SOCIAL CARE INTEGRATION- FINANCIAL ASSURANCE**

REPORT NO. T18B/16 (PKC15-24)

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NHS Tayside Audit Follow-Up

Audit Committee  
External Audit

Date: 22 April 2016

## INTRODUCTION AND SCOPE

1. The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014 and received Royal assent in April. It establishes the framework for the integration of health and social care in Scotland. Detailed supplementary Statutory Guidance on financial assurance was published in May 2015.
2. The Integration Joint Board will have access to a combined budget for services for which it has direct operational responsibility or for which it is hosting services on behalf of the partners. It will also have Large Hospital Set Aside budgets for services delegated for strategic planning purposes, so that it can work in collaboration with the Acute Sector to redesign the care or the pathways of care or implement new models that will shift service and resources. The alignment of the budgets has been the subject of a due diligence process agreed between the partners and the partnerships.
3. One of the most important items of business for a newly established Integration Joint Board (IJB) will be to obtain assurance that its resources are adequate to allow it to carry out its functions and to identify, quantify and assess the risks associated with this. In order to facilitate this, the guidance states that it is recommended that: *'the Audit Committees are provided with a report, produced jointly by the Health Board and Local Authority Chief Internal Auditors (and copied to the shadow IJB), on the assurance work that has been carried out by the Health Board and Local Authority.'*
4. The audit work reported was undertaken jointly by the Internal Audit teams of NHS Tayside and Perth & Kinross Council.

## OBJECTIVES

5. Our audit work was designed to evaluate whether appropriate systems were in place and operating effectively to mitigate risks to the achievement of the objectives identified below.
6. The integration of health and social care instigates the radical reform required to improve care, particularly for adults with multiple complex support needs, many of whom are frail older people, and to make better use of the substantial resources that are committed to adult health and social care.
7. This review supports NHS Tayside Strategic Risk 239: *'Failure to put in place effective arrangements for health and social care integration will result in the new partnerships not being established and operational by 1 April 2016, breaching regulation and resulting in damage to organisational reputation and failure to deliver on national legislation'* and Perth & Kinross Council Corporate Risk 10: *'The Scottish Government has embarked upon a programme of public service reform to ensure the public, third sector and private organisations work more effectively in partnership with communities and with each other. The Council responds to changes in policy and legislation to design and deliver excellent public services which meet the needs of local people'.*

## **RISKS**

8. The following risks could prevent the achievement of the above objectives and were identified as within scope for this audit.
  - ◇ Risks and assumptions may not be comprehensive, accurate and clear
  - ◇ The financial assurance process may not have followed national guidance

## **AUDIT OPINION AND FINDINGS**

9. We can provide assurance that in our opinion the due diligence processes undertaken on the initial sums for the integrated budget (i.e. exempting the Large Hospital Set Aside) comprehensively covered the requirements of the national financial assurance guidance. The information provided to the Perth & Kinross Integration Joint Board (IJB) at its November 2015 meeting and concluding in the January and February 2016 Development events provided a full and detailed picture of the financial position of the budgets in scope. In addition, in our opinion, the due diligence and summary of risks reports met all the requirements of the national financial assurance guidance in relation to risk assessment. We would commend the approach taken in providing IJB members with an overall view of financial risks.

### **Financial assurance process**

10. A final version of the Integration Financial Assurance Guidance was issued by the Scottish Government in June 2015 which was designed to provide guidance on a process of financial assurance to allow the IJB to assess the resources to be delegated and associated risks.
11. The guidance states that the Health Board and Local Authority internal auditors should provide a report to the Health Board and Local Authority audit committees as well as the IJB on the assurance process that has been carried out. In order to ensure that the due diligence process undertaken for Perth & Kinross IJB complied with the Financial Assurance Guidance, we examined the due diligence report to the Perth & Kinross IJB as well as the presentations to the January and February 2016 development events, examined a sample of underlying working papers used to produce these reports, discussed the process undertaken with the Chief Finance Officer and other Senior Finance staff through the HSCI Senior Finance Group and compared the risks and assumptions reported to our own knowledge of our respective client organisations and other documentation available.
12. The due diligence process to be followed for Perth & Kinross Integration Joint Board was originally described to the Pathfinder Board in May 2015. At its meeting in November 2015, the Perth & Kinross IJB was provided with a high level financial assurance report which also included a link to the detailed due diligence annexes. These annexes addressed the requirements of the financial assurance guidance showing information such as:
  - i. For Council budgets; the final outturn position for in scope services for 2013/14 and 2014/15 including a summary of the main variances, a description of budget adjustments and budget savings as well as a list of investment bids approved. Information was also

provided on allowable cost pressures, non recurring funding and resource transfer. A description of the medium term financial forecast including an estimated funding gap and future financial risks was also presented.

- ii. Budgets for NHS services in scope to be delegated were assessed against actual expenditure for 2013/14 and 2014/15. Opening and closing budgets positions including material non-recurrent funding and the future status of such funding were reported for NHS budgets. Information was also provided on reporting adjustments where budgets had been moved between cost centres. The report also indicated the medium term financial forecast for the delegated services as well as tables showing unmet savings targets, annual savings targets, development/cost pressure funding and other funded cost pressures. In addition, a description of the projected overall financial position for 2015/16 and a summary of risk and cost pressures at 31 October 2015 were reported.
13. The IJB also held two development events in January and February 2016. In January, IJB members received presentations providing an overview of each of the (hosted) services in scope as well as the challenges and risks facing the service and impacting on their financial position. The February 2016 development event provided information on the key questions for IJB members to inform their assessment of the budgets to be delegated.
14. At the time of our fieldwork, the IJB had not yet received financial assurance information against the Large Hospital Set Aside budget. We acknowledge that this is due to the complexities and timescales affecting the NHS Tayside financial planning process and the impact this had on the work to be done for the IJB. We reviewed a draft of the financial assurance paper to be presented to the IJB in March 2016 and note that this paper acknowledges the outstanding work in this area.
15. We compared the services to be delegated to the IJB as set out in the Perth & Kinross Integration Scheme to the budgets covered by the due diligence work. We found that budgets for all services to be delegated were subject to the Due Diligence work with the exception of the Public Dental Service currently budgeted for within the Access Directorate, a budget of c £2M. However, we would note that the January development event of the Perth & Kinross IJB received a presentation on the Public Dental Service including the funding position and challenges faced.
16. Whilst the remit of this audit review was designed to review whether the process of due diligence work undertaken complied with the financial assurance guidance, we would note that the value of the due diligence work only lies in providing a framework to IJB members in which to reach their assessment on the adequacy or otherwise of the resources that will be delegated to them. We note that the February 2016 development event presentation sought to answer the following key questions in relation to both the Council and NHS resources to be delegated:
  - ◇ What level of budget will transfer?
  - ◇ Is it clear and transparent?
  - ◇ Does it take account of historic pressures/risks?
  - ◇ Is it fair & proportionate?

- ◇ Is it sufficient?
  - ◇ Does it allow us to proceed on a sound financial basis?
17. Our view is that information provided to IJB members should clearly demonstrate the link from the work undertaken on due diligence to the final budget being delegated. We have received assurance from the Chief Finance Officer that a further paper on financial assurance is due to be taken to the March 2016 IJB meeting. We have reviewed a draft version of this paper and note that this acknowledges important outstanding issues and risks in relation to these questions.
18. Guidance states that the due diligence process should be based on mutual trust and confidence involving an open-book approach and an honest sharing and discussion of the assumptions and risks. Through our discussion with senior finance staff from both parties involved in this work, we would commend the collaborative approach and the detailed information provided to IJB members on an ongoing basis leading up to the budget setting process. The background provided in due diligence papers presented to the IJB is based on the financial assurance guidance. Our discussions with management have shown that regular liaison took place between Perth & Kinross Council and NHS Tayside finance staff including through the HSCI Senior Finance Group. This included staff agreeing the level of detail to which the work was performed consistently and sharing information on the work undertaken. We carried out sample testing of the figures provided to the underlying working papers provided to us and found no exceptions.
19. The guidance recommends that *'the predetermined financial metrics that officers will use in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.'* We discussed with the Chief Finance Officer that whilst the IJB has not as yet addressed this recommendation, efforts at this stage are focused on achieving a balanced financial position. Plans are in place for work to address this recommendation to allow the partnership to achieve long term financial sustainability.

## **Risks and Assumptions**

20. The financial assurance guidance stresses at various points the importance of understanding the key risks and assumptions inherent in the budgets and financial positions for the delegated services. It also states that all risks should be quantified where possible and measures to mitigate risk identified.
21. Risks have featured prominently in the papers and presentations provided to the Perth & Kinross IJB. The formal report to the November 2015 IJB meeting showed a summary of key financial risks attributable to Perth & Kinross Partnership as at 31 October 2015 including a description of the issue, value, relevant lead officer and a comment on management. At the January development event, service managers presented the challenges including financial pressures faced by their services. The February 2016 development event main presentation included a summary of risks and cost pressures and a discussion on risks and challenges led by the Chief Officer. We have also reviewed a draft of the financial assurance paper to be presented to the March IJB meeting and note that this will include information on remaining and new risks. We would commend the approach taken in providing IJB members with an overall view of risks to inform their assessment.

22. In our opinion, these risks appear to be reasonable at the point they were reported and covered the areas we expected to see, including the financial position of the partners and the resultant required efficiency savings. In our opinion, the due diligence report fulfils the requirements of the national financial assurance guidance in relation to risk assessment. We are not aware of any material risks not disclosed through these reports and those risks reported do not contradict any other information we are aware of.
23. We would note that our positive opinion on the process followed and the information provided to IJB members to help inform their assessment on the adequacy or otherwise of the resources to be delegated is not intended as assurance on the risks themselves. We would highlight the importance of a future report to the IJB on a detailed savings plan to mitigate the risks identified to date.
24. The guidance recommended that partners may find it useful to consider treating the first year as a transitional year and agree to a risk sharing arrangement. The Perth & Kinross Integration Scheme states that in the 1st and 2nd financial year, overspends will be met by the Party to which the spending Direction for service delivery is given.

## **Conclusion**

25. Overall, in our opinion, the process undertaken has been very robust and we commend the fact that this work has been done in partnership. In addition, risks were clearly identified and reported.
26. The report on outstanding risks to be reported to the March 2016 IJB meeting will be critical to allow IJB members to conclude on the adequacy or otherwise of the resources. As noted in previous Due Diligence reports to the IJB, significant risks remain in relation to the IJB's budget and associated levels of savings required to meet cost and demand pressures and achieve financial balance.

## **ACTION**

27. An action plan has been agreed with management to address the identified weaknesses. A follow-up of implementation of the agreed actions will be undertaken in accordance with the audit reporting protocols of each partner.

## **ACKNOWLEDGEMENT**

28. We would like to thank all members of staff for the help and co-operation received during the course of the audit.

A Gaskin, BSc. ACA  
Chief Internal Auditor, NHST

J Clark  
Chief Internal Auditor, PKC

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
1.	Our view is that information provided to IJB members should clearly demonstrate the link from the work undertaken on due diligence to the final budget being delegated.	We have received assurance from the Chief Finance Officer that a further paper on financial assurance is due to be taken to the March 2016 IJB meeting. We have reviewed a draft version of this paper and note that this acknowledges important outstanding issues and risks in relation to these questions.	2	Agreed. A Financial Assurance Paper has been completed and will be considered by the IJB at its meeting on 23 March 2016.	Chief Officer Completed.
2.	Our positive opinion on the process followed and the information provided to IJB members to help inform their assessment on the adequacy or otherwise of the resources to be delegated is not intended as assurance on the risks themselves.	We would highlight the importance of a future report to the IJB on a detailed savings plan to mitigate the risks identified to date.	2	Agreed. The Chief Finance Officer will provide a full report on progress in developing a financial recovery plan to the IJB at the end of June 2016.	Chief Officer 30 June 2016

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
3.	The guidance recommends that <i>'the predetermined financial metrics that officers will use in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.'</i> The IJB has not as yet addressed this.	Arrangements should be made to review actual performance against the assumptions made and adjust future years. Guidance on Financial Planning for Large Hospital Set Aside should also be taken into account.	3	Agreed. In setting out a 3 year Financial Plan to support delivery of the Strategic Plan, a robust investment/disinvestment strategy will be developed that will seek to support the key aims of integration whilst securing overall financial balance. Establishing a clear and robust transformation programme that will deliver the core ambitions of the Strategic Plan is essential and this will be presented to the IJB at its meeting in August.	Chief Officer 31 August 2016



The priorities relating to Internal Audit recommendations are defined as follows:

**Priority 1 recommendations** relate to critical issues, which will feature in our evaluation of the Governance Statement. These are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error or seriously impact on the reputation of the organisation and require urgent attention by a Director.

**Priority 2 recommendations** relate to important issues that require the attention of senior management and may also give rise to material financial loss or error.

***Priority 1 and 2 recommendations are highlighted to the Audit Committee and included in the main body of the report within the Audit Opinion and Findings***

**Priority 3 recommendations** are usually matters that can be corrected through line management action or improvements to the efficiency and effectiveness of controls.

**Priority 4 recommendations** are recommendations that improve the efficiency and effectiveness of controls operated mainly at supervisory level. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.