

FTF Internal Audit Service

Financial Risks

Report No. PKIJB 19/01

Issued To: G Paterson, Chief Officer
J Smith, Chief Finance Officer

D Mitchell, Finance Manager

[Follow-Up Co-ordinator]

Audit and Performance Committee
External Audit

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Management Responses Received	28 May 2021
Target Audit & Risk Committee Date	21 June 2021
Final Report Issued	3 June 2021

INTERNAL AUDIT

1. The relevant professional standard for internal audit activity within public sector organisations is the Public Sector Internal Audit Standards (PSIAS). The definition given in the PSIAS is as follows:
2. “Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

BACKGROUND AND SCOPE

3. This assignment forms part of the Internal Audit plan for 2019/20, approved by the Audit and Performance Committee on 16 September 2019.
4. Financial risks are articulated within the IJB’s risk register and are high risk to the Partnership achieving its objectives. The risks are well articulated, with actions highlighted to mitigate the management of these risks.
5. Following two years of significant overspends for Perth & Kinross IJB (ca. £1.2M in 2018/19 and ca. £1.8M in 2019/20), the 2020/21 financial position (which formed the scope for this audit) shows a positive picture forecasting a significant £2.508m underspend on core services which is planned to be carried forward to 2021/22 as a general reserve. This audit considered arrangements in place to ensure that financial risks are mitigated and managed as appropriate. This included review of documentation and meeting with relevant officers.

CONTROL OBJECTIVES & OPINION

6. This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that the IJB understands the financial risks of the Partnership

7. A special meeting of Perth & Kinross IJB in March 2020 approved the Revenue Budget for 2020/21 and the indicative Revenue Budget for 2021/22 and 2022/23 alongside the 3 year financial recovery plan aimed at delivering financial balance and sustainable services.
8. In its most recent report to the Audit & Performance Committee in February 2021, the relevant Strategic Risk *SR01: FINANCIAL RESOURCES* remains rated Priority 1 (*Risk remains extreme even after all identified controls and treatments have been applied. There are significant risks, which may have a serious impact on the Partnership and the achievement of its objectives if not managed. Immediate management action needs to be taken to reduce the level of net risk*) Controls are assessed as A (*Controls are working effectively*).
9. Within the risk, controls are assessed as working effectively, albeit they only reduce the probability of occurrence to ‘high’ and therefore additional mitigating actions are required to further reduce the risk.
10. The IJB recognises that future financial strategy is dependent on development of a new Strategic Plan based on the new post Covid context and the impact on demand and

resources and associated transformation work to ensure planning for sustainability. For example the March 2021 budget paper to the IJB set out that *'We intend to review our Strategic Commissioning Plan and as part of that our Service Redesign and Transformation Programme on the basis of our experience over the last 12 months and through a 'Covid lens' which is likely to have a significant bearing on the Medium Term Financial Plan'*. The IJB does also have both efficiency savings and service redesign programmes,. However, none of these are currently noted as controls within the Finance risk. We would recommend that the risk is reviewed and controls are updated to include any processes designed to ensure long term sustainability. The IJB's financial position is regularly monitored at governance level. Of the 5 meetings of the IJB which took place during 2020/21 (following the March meeting which approved the budget), 4 received formal monitoring reports on the financial position in May, September, December and February, with a verbal report being made in July 2020. An additional report went to the A&PC in November 2020 ensuring reporting remained timely. We also confirmed that financial monitoring is included in the IJB's forward planner for each future meeting, ensuring regular adequate monitoring.

11. Since end September 2020, the Financial Position monitoring reports to the IJB have been projecting a significant underspend at year end (to be carried forward as a general reserve to 2021/22). The most recent IJB report in February 2021 on the 2020/21 financial position shows a positive picture forecasting a significant £2.508m underspend on core services which is planned to be carried forward to 2021/22 as a general reserve.
12. The narrative provided shows that this was mostly due to vacancies on the health side and lower usage on the social care side. Although clearly impacted heavily by the scale of remobilisation efforts, it is not possible at this point to establish and report on whether these variances were caused by the change in demand due to Covid (for example, if supplementary staffing would have had to have been utilised in a normal year, or whether the drop in usage is likely to lead to additional needs going forward). Direct costs of Covid (including the impact on savings delivery) and funding received are separately reported; all costs have been covered with an additional allocation of £3.963m for future Covid19 costs to be carried forward as an ear marked reserve. Another development leading to an improved financial position in 2020/21 was the transfer of operational responsibility for inpatient mental health services to NHS Tayside. This area had previously been a significant risk to the financial position of P&K IJB. However, there is as yet no long term agreement, pending the review of the Integration Scheme.
13. In the current context it is therefore difficult to assess whether there has been an improvement in the underlying financial position as a consequence of actions taken by the IJB, or whether this is a temporary improvement due to changes in both demand and funding arising from Covid. This understanding is crucial to assessing the accuracy of the risk in the longer term.
14. We have been informed by management that work is being undertaken to understand the future impacts of Covid on the financial position.. As set out in the revenue budget for 2021/22, PKHSCP is committed to medium term financial planning; however the Covid19 pandemic has required an extraordinary but pragmatic response and therefore a 1 Year Budget has been prepared.
15. Development events and Budget Review Group (BRG) meetings with IJB members during the year also contribute to providing members with a view of financial pressures and opportunities being faced.

16. Financial Reporting shows transparency and differentiates clearly between the underlying operational position, as well as Covid direct costs and funding.
17. Financial reporting also includes monitoring of the recovery plan on a projected versus planned basis.
18. Papers make reference to reporting on the risks to delivery of the IJB's Financial Plan 2020/21, although this is no longer set out under a specific heading on 'areas of further financial risk' as was previously the case. It would be good practice to include a section on Risks & Opportunities to allow members to be informed of emerging trends, risks and issues. We recommend that financial reports should include a formal risk assessment including quantifying the potential financial impact of any issues arising wherever possible. Information should be detailed enough to allow members to judge whether issues are being anticipated/reported timeously.
19. We reviewed the minutes of IJB meetings to determine the level of scrutiny. Although the style of minutes is more minimalist in nature, we have been informed by management that discussion and scrutiny take place during the finance agenda items. Alongside the development events and BRG meetings as referenced above, we conclude that understanding of whether and to what extent the underlying position has improved.
20. Although the IJB has previously moved towards longer term financial planning, due to both a lack of management capacity whilst dealing with the Covid emergency as well as the uncertainties presented by the pandemic, it was agreed to develop a one year budget for 2021/22. We acknowledge the extreme difficulties in developing a longer term plan and the IJB accepts that a medium term plan will be dependent upon the review of the Strategic Commissioning Plan and Service Redesign and Transformation Programme.
21. We also noted clear links to the financial position from other individual papers to the IJB on topics such as transformation of individual services. A financial implications section is also included in the Board & Committee report template and our review of a sample of items showed this section appropriately completed where applicable.
22. Although the IJB is provided with adequate reporting to understand the financial risks it is facing in the short term, there could be better links between financial reporting and the Finance risk and greater emphasis on the underlying position. The Financial position monitoring report should be overtly related to the Financial Resources strategic risk, should provide all necessary assurances and in particular should contain a conclusion on whether controls are operating effectively to mitigate the risk as intended and support the current scoring of the risk. Once a medium term plan is developed that should be incorporated into the risk as well as the focus on the outcome for the year.

Control Objective 2: To ensure that there is appropriate engagement from the Board with the statutory bodies to ensure the long term sustainability of the IJB.

23. There are several important issues impacting on the relationship with the partner bodies which have previously been the subject of recommendations from various sources.
24. The objective of Large Hospital Set Aside (LHSA) is to create a coherent single cross-sector system for local joint strategic commissioning of health and social care services and a single process through which a shift in the balance of care can be achieved. Fundamental to this endeavour is a clear understanding of how Large Hospital services are being consumed and how that pattern of consumption and demand can be changed by whole system redesign.
25. A partnership improvement plan, based on the recommendations arising from the Ministerial Steering Group (MSG) for Health and Community Care 'Review of Progress

with Integration of Health and Social Care, Final Report, February 2019', was last reported to the A&PC in June 2020. Whilst some progress has been made against the Finance recommendations in the MSG report, a number of actions remain outstanding, including the implementation of LHSA referred to above, and at the time of our fieldwork, neither the A&PC nor the IJB had received recent updates on the current position or likely completion of agreed actions. The Partnership Improvement Plan has now been updated by management and is planned for presentation to the June 2021 A&PC meeting. This shows the RAG rating of the financial controls actions reducing to green and amber, reflecting progress made.

26. Both internal and external audit have previously made recommendations to clarify and agree risk sharing arrangements in relation to overspends on the IJB's resource, most recently in the 2019/20 Annual External Audit report.
27. Internal and external audit recommendations are monitored through Audit recommendation update reports to the A&PC, most recently in a November 2020 report, which stated that the Chief Officer, along with those of the other Tayside IJBs, has formally requested that the review of IJB's Risk Sharing Arrangements is incorporated within the imminent review of the IJB's Integration Scheme.
28. We are aware that pan-Tayside efforts in relation to both LHSA and reviews of the Integration Schemes have been delayed in part due to the effect of Covid-19.
29. In January 2020, the Scottish Government issued further guidance '*to improve practice in the issuing and implementation of directions issued under the Public Bodies (Joint Working) (Scotland) Act 2014*'. Directions are the means by which an IJB tells the Health Board and Local Authority what is to be delivered using the integrated budget. Making improvements in the use of Directions is included in the Partnership Improvement Plan (see Paragraph 20 above).
30. We were informed by management that the IJB has received close support from Council colleagues in its financial planning and management arrangements. The PKC budget process allows for regular discussion with the HSCP. The different approach to budget setting on the NHS Tayside side means that this close interaction is not mirrored on the health side. We were informed that due to the impact of the pandemic, only one meeting took place with the NHS Tayside Director of Finance over the financial year. However, regular meetings have now been scheduled throughout 2021/22 with the NHS Tayside Director of Finance to ensure understanding of respective financial positions and to support budget setting discussions for future years.
31. We would stress the importance of continued focus on progress with these long standing complex actions including scrutiny at governance level on implications of non achievement. As these complex actions cannot be solved by the IJB in isolation, if necessary, and for issues involving Partners, escalation should be to the Working Together Forum, where the Chairs, Council Leaders, Chief Executives and Chief Officers from all partner bodies meet. Consideration should also be given to working with the other Tayside IJBs who also have to find solutions to these issues.

AUDIT OPINION

32. The Audit Opinion of the level of assurance is as follows:

Level of Assurance	System Adequacy	Controls
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<p>Moderate Assurance</p>		<p>Adequate framework of key controls with minor weaknesses present.</p>	<p>Controls are applied frequently but with evidence of non-compliance.</p>
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A description of all definitions of assurance and assessment of risks are given in Section 3 of this report.

ACTION

The action plan at Section 2 of this report [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 protocol.

ACKNOWLEDGEMENT

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

Jackie Clark
Chief Internal Auditor

Action Point Reference 1	
Finding:	
<p>We concluded that the IJB is provided with adequate reporting to understand the financial risks it is facing in the short term. .</p> <p>We also note that the complex impact of Covid on the long term financial position makes an assessment of the accuracy of the risk in the longer term very difficult at this time.</p> <p>However, to improve the flow of assurance, there could be better links between the reporting on the financial position and the Finance risk.</p>	
Audit Recommendation:	
<p>The Financial position monitoring report should be overtly related to the Financial Resources strategic risk, should provide all necessary assurances and in particular should contain a conclusion on whether controls are operating effectively to mitigate the risk as intended and support the current scoring of the risk. Once a medium term plan is developed that should be incorporated into the risk as well as the focus on the outcome for the year.</p> <p>In addition, management should consider inclusion of the following in the financial reporting format:</p> <ul style="list-style-type: none"> • Clear identification of risks and emerging issues to include a more formal risk assessment including quantifying the potential financial impact of any issues arising wherever possible. Information should be detailed enough to allow members to judge whether issues are being anticipated/reported timeously. 	
Assessment of Risk:	
Insert relevant icon and description of assessment here by deleting those not applicable:	
Significant	 <p>Weaknesses in control or design in some areas of established controls.</p> <p>Requires action to avoid exposure to significant risks in achieving the objectives for area under review.</p>
Management Response/Action:	
All financial monitoring reports from 2021/22 onwards will include a section identifying financial risks and mitigating actions.	
Action by:	Date of expected completion:
Head of Finance and Corporate Services	30 September 2021

Action Point Reference 2

Finding:

Within the Financial Resources Strategic risk, controls are assessed as working effectively, albeit they only reduce the probability of occurrence to ‘high’ and therefore additional mitigating actions are required. The format of recording the IJB’s strategic risks does not include information on a planned score for each risk, nor any additional actions to reduce the risk.

The IJB’s financial planning approach should ensure planning for sustainability. However, although the IJB does have both efficiency savings and service redesign programmes, none of the controls noted within the Finance risk refer to these or any other processes designed to ensure long term sustainability.

Audit Recommendation:

The IJB recognises that future financial strategy is dependent on development of a new Strategic Plan based on the new post Covid context and the impact on demand and resources and associated transformation work. For example the March 2021 budget paper to the IJB set out that *‘We intend to review our Strategic Commissioning Plan and as part of that our Service Redesign and Transformation Programme on the basis of our experience over the last 12 months and through a ‘Covid lens’ which is likely to have a significant bearing on the Medium Term Financial Plan’.*

Once available, the risk should be updated for these additional controls.

Assessment of Risk:

Insert relevant icon and description of assessment here **by deleting those not applicable:**

Significant		Weaknesses in control or design in some areas of established controls. Requires action to avoid exposure to significant risks in achieving the objectives for area under review.
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Management Response/Action:

Complete

Action by:	Date of expected completion:
Head of Finance and Corporate Services	N/A

Action Point Reference 3

Finding:	
There are several complex issues impacting on the relationship with the partner bodies which have previously been the subject of recommendations from various sources and remain outstanding at this point. These actions cannot be solved by the IJB in isolation.	
Audit Recommendation:	
We would stress the importance of continued focus on progress with these long standing complex actions including scrutiny at governance level on implications of non achievement. If necessary, and for issues involving Partners, escalation should be to the Working Together Forum, where the Chairs, Council Leaders, Chief Executives and Chief Officers from all partner bodies meet Consideration should also be given to working with the other Tayside IJBs who also have to find solutions to these issues.	
Assessment of Risk:	
Insert relevant icon and description of assessment here by deleting those not applicable:	
Significant	 <p>Weaknesses in control or design in some areas of established controls. Requires action to avoid exposure to significant risks in achieving the objectives for area under review.</p>
Management Response/Action:	
Meetings have now been arranged collectively with the Director of Finance and all 3 CFO's for the duration of 2021/22 to discuss and resolve common issues. In addition, meetings have also been scheduled on a 1:1 basis with the NHST Director Finance. In addition meeting s have been scheduled jointly with the Director of Finance NHST and the Head of Finance Perth & Kinross Council with the Head of Finance and Corporate Services during the year. Wider meetings with Chief Executives will be planned as part of discussion in relation to the review of the Integration Scheme and financial risk sharing arrangements.	
Action by:	Date of expected completion:
Jointly Chief Officer, Chief Executives NHS Tayside, Perth & Kinross Council.	Complete as far as possible by the Chief Officer

Level of Assurance		System Adequacy	Controls
Comprehensive Assurance		Robust framework of key controls ensure objectives are likely to be achieved.	Controls are applied continuously or with only minor lapses.
Moderate Assurance		Adequate framework of key controls with minor weaknesses present.	Controls are applied frequently but with evidence of non-compliance.
Limited Assurance		Satisfactory framework of key controls but with significant weaknesses evident which are likely to undermine the achievement of objectives.	Controls are applied but with some significant lapses.
No Assurance		High risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Assessment of Risk

To assist management in assessing each audit finding and recommendation, we have assessed the risk of each of the weaknesses identified and categorised each finding according to the following criteria:

Risk Assessment		Definition	Total
Fundamental		Non Compliance with key controls or evidence of material loss or error. Action is imperative to ensure that the objectives for the area under review are met.	
Significant		Weaknesses in control or design in some areas of established controls. Requires action to avoid exposure to significant risks in achieving the objectives for area under review.	
Merits attention		There are generally areas of good practice. Action may be advised to enhance control or improve operational efficiency.	