



To: Audit, Scrutiny and Petitions Board

On: 21 March 2016

Report by: Chief Auditor

Heading: Health and Social Care Integration – Financial Assurance Audit

1. Summary

- 1.1 On the 1st of April 2014 the Public Bodies (Joint Working) (Scotland) Act received Royal Assent. This legislation placed a joint duty on the Council and Health Board to integrate planning for and delivery of certain adult health and social care services. The Council and Greater Glasgow and Clyde Health Board have elected to use a “body corporate” arrangement, delegating the services to a third body called the Integration Joint Board.
- 1.2 As part of the 2015/2016 Internal Audit Plan a review has been undertaken to provide Council members with an opinion on the financial governance and financial assurance undertaken in the determination of the Council's Social Care budgets to be integrated.
- 1.3 The Scottish Government established the Integrated Resources Advisory Group (IRAG) to develop professional guidance in relation to financial matters including the framework for financial governance and financial assurance. The purpose of the audit review was to ensure that a robust process has been followed to establish the financial governance arrangements for the Integration Joint Board and that the financial assurance guidance prepared by the IRAG had been followed in relation to establishing the budgets to be transferred from the Council to the Integration Joint Board.
- 1.4 The internal audit report is attached at Appendix 1 of this report and concludes that, Internal Audit is able to provide reasonable level of assurance over financial governance and financial assurance relating to Renfrewshire Council and its responsibilities to the Renfrewshire Integration Joint Board. Moving forward there will need to be continued monitoring of the financial risks that have been identified through the due diligence process. Risk

registers in this regard should be comprehensive, transparent and regularly monitored.

2. **Recommendations**

- 2.1 Members are asked to note the report on health and social care integration financial assurance.
 - 2.2 Members are asked to note that this report will be shared with the Integration Joint Board and the Health Board as required by the IRAG guidance.
-

Implications of the Report

- 1. **Financial** – the report provides financial assurance in relation to the process followed for making budget allocations to the Integration Joint Board.
- 2. **HR & Organisational Development** - None
- 3. **Council /Community Planning** – None
- 4. **Legal** - None
- 5. **Property/Assets** - None
- 6. **Information Technology** - None
- 7. **Equality & Human Rights**
 - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
- 8. **Health & Safety** – None
- 9. **Procurement** - None
- 10. **Risk** – The report indicates that there needs to be robust monitoring of the financial risk exposures for the Integration Joint Board.
- 11. **Privacy Impact** – None

Author: Andrea McMahon – 01416187017



Internal Audit Report



Health and Social Care Integration Financial Assurance Audit

Date	March 2016
Audit Ref:	SYS137/2016/001

Contents

Management Summary	1
Detailed Report.....	3
1. Persons referred to in report.....	3
2. Introduction.....	3
3. Background	3
4. Objectives.....	3
5. Scope	3
6. Basis of opinion	4
7. Key audit assurances	4
8. Key risks arising from the audit review.....	4
9. Detailed findings.....	4
10. Overall Audit Opinion.....	7
Action Plan.....	8

Management Summary

1. Introduction

- 1.1. On the 1st of April 2014 the Public Bodies (Joint Working) (Scotland) Act received Royal Assent. This legislation placed a joint duty on the Council and Health Board to integrate planning for and delivery of certain adult health and social care services. The Council and Greater Glasgow and Clyde Health Board have elected to use a “body corporate” arrangement, delegating the services to a third body called the Integration Joint Board.
- 1.2. The purpose of this audit is to provide independent assurance to members on the financial governance, financial assurance and risk assessment arrangements in place.

2. Objectives of audit

- 2.1 The objectives of the audit were as follows:
 - Confirm that the financial governance arrangements included in the Integration Scheme are in line with the provisions of the Act, Regulations and professional guidance;
 - Agree the baseline budget information to underlying records;
 - Assess the framework for setting each budget including detailed assumptions, recurring and non-recurring funding and expenditure, savings and efficiency targets and financial forecasts;
 - Confirm that both parties have had sight of relevant budget information from the other party and the underlying process for deciding them.

3. Key audit assurances

- 3.1 The financial governance and assurance arrangements in place were found to be in line with the Act, Regulations and professional guidance.
- 3.2 There is a well established budget setting process within the Council and due consideration was given to all material adjustments. The baseline budget was agreed to supporting records and the assumptions made were reviewed and found to be reasonable

4. Key risks arising from the audit review

- 4.1 Given that the Health Board budget will not be finalised until after the 1st of April 2016, the partnership budget is unlikely to be determined in line with the legislation.
- 4.2 There are a number of financial risks facing the IJB and these require to be adequately addressed within the risk register.

5. Overall audit opinion

- 5.1 Based on the work undertaken and the discussions with Officers, Internal Audit is able to provide reasonable level of assurance over financial governance and financial assurance relating to Renfrewshire Council and its responsibilities to the Renfrewshire Integration Joint Board. Moving forward there will need to be continued monitoring of the financial risks that have been identified through the due diligence process. Risk registers in this regard should be comprehensive, transparent and regularly monitored.

Detailed Report

1. Persons referred to in report

1.1 The following personnel were the main officers who assisted us during the review:

- Sarah Lavers, Chief Financial Officer

2. Introduction

2.1 As part of the 2015/2016 Internal Audit Plan a review has been undertaken to provide Council members with an opinion on the financial governance and financial assurance undertaken in the determination of the Council's Social Care budgets to be integrated.

3. Background

3.1 On the 1st of April 2014 the Public Bodies (Joint Working) (Scotland) Act received Royal Assent. This legislation placed a joint duty on the Council and Health Board to integrate planning for and delivery of certain adult health and social care services. The Council and Greater Glasgow and Clyde Health Board have elected to use a "body corporate" arrangement, delegating the services to a third body called the Integration Joint Board.

3.2 The purpose of this audit is to provide independent assurance to members on the financial governance, financial assurance and risk assessment arrangements in place.

4. Objectives

4.1 The objectives of the audit were as follows:

- Confirm that the financial governance arrangements included in the Integration Scheme are in line with the provisions of the Act, Regulations and professional guidance
- Agree the baseline budget to underlying records
- Assess the framework for setting each budget including detailed assumptions, recurring and non recurring funding and expenditure, savings and efficiency targets and financial forecasts
- Confirm that both parties have sight of relevant budget information from the other party and underlying process for deciding them

5. Scope

5.1 Obtained a copy of the Integration Scheme, the Act, Regulations and associated professional guidance and reviewed to ensure that the financial governance arrangements are in line with the details set out in the Integrated Resources Advisory Group recommended guidance.

5.2 Interviewed the appropriate officers and obtained and assessed documentation pertaining to the baseline budget in order to agree these to the supporting records

5.3 Obtained explanations in terms of the budget setting framework in order to assess the assumptions made, the impact of recurring and non recurring funding and expenditure, savings and efficiency targets and financial forecasts

- 5.4 Obtained explanations in terms of the sharing of budget information and the underlying process for deciding them between the Council and the Health Board.

6. Basis of opinion

- 6.1 In arriving at our opinion we comply with the Public Sector Internal Audit Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance.
- 6.2 For the area under review we consider the overall adequacy and effectiveness of risk management, control, and governance processes. Collectively we refer to these activities as “the system of internal control”.
- 6.3 The audit was based on sampling and therefore errors and/ or omissions may exist which have not been identified.

7. Key audit assurances

- 7.1 The financial governance and assurance arrangements in place were found to be in line with the Act, Regulations and professional guidance.
- 7.2 There is a well established budget setting process within the Council and due consideration was given to all material adjustments. The baseline budget was agreed to supporting records and the assumptions made were reviewed and found to be reasonable.

8. Key risks arising from the audit review

- 8.1 Given that the Health Board budget will not be finalised until after the 1st of April 2016, the partnership budget is unlikely to be determined in line with the legislation.
- 8.2 There are a number of financial risks facing the Board and these require to be adequately addressed within the risk register.

9. Detailed findings

9.1 Preparation for Integration

- 9.1.1 In line with the IRAG guidance a Shadow Integration Joint Board was established with the remit to ensure continuity in governance arrangements and oversight of the integration. The first meeting of the Shadow Integration Joint Board took place on the 5th of February 2015 and it received adequate updates on the integration work and the development of the financial and governance arrangements during the period prior to the approval of the Integration Scheme by the Scottish Government.

9.2 Financial Governance

- 9.2.1 The Integration Scheme sets out the detail as to how the Council and Greater Glasgow and Clyde Health Board will work jointly to integrate and plan for services in accordance with the Act. The Finance arrangements are detailed within clause 8 and include the role of the Chief Finance Officer, the methods for determining the budget to be made available to deliver the services and the financial management and reporting arrangements.
- 9.2.2 The Integration scheme was reviewed against the provisions of the Act, the associated Regulations, and the Model Integration Scheme. The auditor is satisfied that that due consideration has been given to the provisions set out in the above documents.

9.2.3 The Scottish Government established the Integrated Resources Advisory Group (IRAG) to consider the financial implications of integrating health and social care, and to develop professional guidance. The guidance included the expected financial governance and assurance arrangements. Following approval of the Integration Scheme, the Renfrewshire Integrated Joint Board was established on 27 June 2015. Since then the IJB has approved a number of financial assurance and governance arrangements including:

- Appointment of the Chief Officer and Chief Financial Officer;
- Financial regulations;
- Financial governance manual;
- Risk management and insurance;
- Internal audit; and
- Audit committee.

9.2.4 The auditor is satisfied that the required financial assurance and governance arrangements are in place to support the delegation of functions to the Integrated Joint Board on 1 April 2016. The auditor can also confirm that the Council's Financial Regulations and Scheme of Delegation have been updated to reflect the delegation of functions to the IJB.

9.3 Financial Assurance

9.3.1 The IRAG guidance requires that the Council's internal auditors provide a report to the council's audit committees (copied to the Shadow Integration Joint Board) on the assurance process that has been carried out by the Council. The assurances provided in this section are, therefore, limited to the process followed by the Council in establishing the budgets to be delegated to the IJB in 2016/17. The internal auditor for NHSGGC has undertaken a separate assurance exercise which was presented to the NHSGGC's Board. Both reports will be shared with the IJB as required by the IRAG guidance.

Baseline budget

9.3.2 In determining the baseline budget allocations for 2015/16 the IJB Chief Financial Officer undertook an exercise to reconcile the previous 3 years budgeted and actual figures to the financial ledger. This exercise was undertaken in line with the IRAG guidance and the auditor independently confirmed the budgeted and actual expenditure agreed to the underlying records. There is sufficient evidence to confirm that NHSGGC has undertaken a similar exercise and this information has been shared with the Council.

9.3.3 The functions delegated from Renfrewshire Council to the Integration Joint Board represent all Adult Social Care functions of the Council, along with the budget for these functions. In addition the Council must also delegate Housing Adaptations and Gardening Assistance budgets to the IJB. The auditor confirmed that the budget for each delegated function per the integration scheme agreed to the financial ledger.

9.3.4 Only those budgets that can be directly influenced by the IJB have been delegated. Year end resource allocations such as central support charges have been retained centrally within the Council budget. This approach appears to be reasonable.

Adjustments to the baseline for 2016/17

9.3.5 The Council has a well established budget setting process which takes account of inflation, demand pressures, efficiencies and legislative requirements through the "unavoidables" process. The auditor can confirm that the budget setting process for 2016/17 is consistent with prior years.

The auditor examined the working papers supporting the calculation of all material adjustments to the baseline budget. It was identified that adjustments have been made to take account of:

- The impact of adults with incapacity legislation on adult protection referrals;
- Inflationary increases on care contracts;
- Demand pressures in relation to demographic growth;
- Anticipated efficiencies including the shift in the balance of care from care homes to care at home services;
- The impact of the national minimum/living wage;
- Pay inflation;
- The impact of the national insurance contracting out change and
- The impact on pension costs in relation to auto-enrolment.

9.3.6 The auditor is satisfied that there is adequate supporting documentation in relation to each material adjustment made and that the underlying assumptions used in the calculations are reasonable.

9.3.7 The auditor was advised that there is no material non-recurrent funding and expenditure included within the Council budgets to be delegated to the IJB. Non-recurring funding in relation to the Older People Change Fund ceases in 2015/16 and has therefore not been included in the rolled forward budget for 2016/17. Additional monies have been provided by the Scottish Government through the Integration Care Fund and it has recently been confirmed that this will be treated as recurring funding from 2016/17.

Annual Financial Statement

9.3.8 The legislation requires that the IJB must publish an annual financial statement (budget) at the same time as it publishes its first strategic plan. The annual financial statement must set out in relation to the strategic plan the amount that the IJB intends to spend in the implementation of the plan. At the time of this review the Scottish Government's 2016/17 local government finance settlement had only recently been announced and the Council's budget for 2016/17 was still to be agreed by the Council. It is understood that the Health Board settlement will not be finalised until after 1 April 2016. The final budget for the IJB cannot be determined until the final budgets have been set for the partner organisations. It is, therefore, unlikely that the annual financial statement for 2016/17 will be published by 1 April 2016, as required by the legislation.

Recommendation 1

We would recommend that legal advice is sought in relation to the possible consequences of being unable to publish the annual financial statement as required by the Act. Furthermore, should this be the case the Chief Officer should consider disclosure of the relevant facts in the annual governance statement.

9.4 Risk Management

9.4.1 The IJB has approved a risk management policy and strategy, currently, the risk register concentrates on the key risks relating to the preparation for full integration. Regular updates have been provided to the board in relation to the risk register.

9.4.2 The due diligence process undertaken by the Chief Officer and the Chief Financial Officer for the IJB has identified a number of significant financial risks which require to be effectively managed in order to ensure the financial stability of the IJB resources available to support the strategic plan. At the time of this audit review the partner organisations were working together to develop a detailed risk register for post integration, this work is on-going.

Recommendation 2

The risk register, once developed, should ensure that there is sufficient transparency in relation to the financial risks, mitigating controls and the actions required to further mitigate the risks. Furthermore, we would recommend that wherever possible the risks should be quantified and should be appropriately classified.

10. Overall Audit Opinion

- 10.1 Based on the work undertaken and the discussions with Officers, Internal Audit is able to provide reasonable level of assurance over financial governance and financial assurance relating to Renfrewshire Council and its responsibilities to the Renfrewshire Integrated Joint Board. Moving forward there will need to be continued monitoring of the financial risks that have been identified through the due diligence process. Risk registers in this regard should be comprehensive, transparent and regularly monitored.

Action Plan

Rec No.	Recommendation	Responsible Officer	Agreed Completion Date	Response	Priority
Financial Assurance					
01	We would recommend that legal advice is sought in relation to the possible consequences of being unable to publish the annual financial statement as required by the Act. Furthermore, should this be the case the Chief Officer should consider disclosure of the relevant facts in the annual governance statement.	Sarah Lavers/Ken Graham	01/03/16	Advice has been sought and the final due diligence report and financial plan will be delayed until the June Board when the Health budget is clarified. A draft due diligence report without the financial plan will go to a special IJB meeting towards the end of March (date to be confirmed).	B
Risk Management					
02	The risk register, once developed, should ensure that there is sufficient transparency in relation to the financial risks, mitigating controls and the actions required to further mitigate the risks. Furthermore, we would recommend that wherever possible the risks should be quantified and should be appropriately classified.	Sarah Lavers / Jean Still	01/03/16	Risk register will be updated in line with the recommendation	A