

Governance, Risk and Best Value Committee

2.00pm, Wednesday 23 September 2015

Internal Audit Report: Integrated Health & Social Care

Item number	7.5
Report number	
Executive/routine	
Wards	

Executive summary

In order to comply with the Public Bodies (Joint Working) Scotland Act 2014, the Council and NHS Lothian have created an Integrated Joint Board to plan and oversee the provision of adult care within the city.

Guidance issued by the Scottish Government calls for internal audit to be used to provide assurance during the integration phase of the project. In order to provide that assurance, the Council's Internal Audit and the NHS Lothian internal audit function met to discuss scopes and agreed to perform similar reviews on the integration project.

This report presents a summary of the outcome of the review conducted by Internal Audit on the progress made in setting up and transitioning oversight of care to the Integrated Joint Board.

Internal Audit have identified concerns over the current state of the project in relation to Governance & Finance which we consider merit attention from management.

Links

[Coalition pledges](#)
[Council outcomes](#)
[Single Outcome Agreement](#)

Internal Audit Report: Integrated Health & Social Care

Recommendations

- 1.1 It is recommended that the Committee note the concerns identified on the integration project at its current stage and the creation of the Integrated Joint Board contained within this report.

Background

- 2.1 The Public Bodies (Joint Working) Scotland Act 2014 was designed to ensure better connected and co-ordinated services for adults through the integration of health and social care services currently provided separately by local authorities and health boards.
- 2.2 The City of Edinburgh Council (CEC) and NHS Lothian (NHSL) will create an Integration Joint Board, the Edinburgh Integrated Joint Board (EIJB), to plan for and oversee the provision of adult care within the city. A shadow board was in place at the time of the audit. The new EIJB was established in law on 27 June 2015 and its first meeting took place on 17 July 2015. Functions, services and resources will be fully delegated by 1 April 2016.
- 2.3 The creation of the Integration Joint Board means that a single legal entity will have responsibility for the strategic planning, resourcing and operational oversight of a number of health and social care services.
- 2.4 The planned Integration Scheme details how the Board intends to operate, covering key areas such as delivery arrangements, clinical care, governance and finance.
- 2.5 The Scottish Government issued the “Guidance for Integration Financial Assurance” in December 2014. This guidance provides advice for bodies involved in integration on how to use assurance to ensure that Integration can occur successfully. It is recommended that during the integration process, internal audit is used to provide assurance on:
- The plans for financial governance, risk and financial assurance;
 - Whether lessons learned from other integration projects have been used;
 - The financial provisions to be included in the Integration Scheme; and

- That the financial measures which will be used by officers to assess whether integration has met its objectives have been identified and that there is a process for obtaining data which can be used for base lining.
- 2.6 This review has been completed as a part of the assurance work required for the EIJB, with NHS Lothian performing a similar review in line with their requirements. The scope of the NHS Lothian report specifically did not include finance.
- 2.7 The full Internal Audit Report (Appendix 1) adopts a different format from the normal Council format. This format change was adopted by Internal Audit to match the format used by NHS Lothian’s internal audit function to ensure consistency for all members of the EIJB.

Main report

- 3.1 The audit focussed on 4 areas and we have identified significant concerns over the current state of the project in relation to Governance & Finance:

Control Area	Risk Rating
Governance	High
Finance (includes 1 'critical' rated finding)	High
Project Management	Medium
Risk Management	Low

The key findings identified during the audit based on position at time of the audit can be summarised as follows:

Governance

- 3.2 There is no Chief Officer or Chief Financial Officer in place for the EIJB, meaning that no officer has overall ownership for the project; and
- 3.3 There is not clarity around what will replace the current Integrated Board Joint Leadership Group, and in what format this group will meet.

Finance

- 3.4 There is no clarity around whether the funding provided by the partners in the EIJB is aligned with the functions /services they assess as being required;
- 3.5 The Health & Social care budget is under significant strain with the most recent predicted over spend (net savings) being £9.4m; and

- 3.6 Once established, should the EIJB experience an overspend, it may request further funding from CEC and/or the NHS. There is no clarity over CEC's responsibilities in such an event.

Project Management

- 3.7 There is not yet clarity over how the integrated management structure which is to be put in place will operate, or how this will report to the Chief Officer. There is also no agreement over how functions that will not be delegated to the EIJB will support it, or how these will be split between the Partner bodies.

Management response

- 3.8 The Council management have accepted the findings identified in the report and are seeking to address these findings in conjunction with NHS Lothian in the period remaining before the EIJB takes responsibility for adult care on 1 April 2016.

Measures of success

- 4.1 The efficient and effective operation of the EIJB.

Financial impact

- 5.1 See section 3.5 above.

Risk, policy, compliance and governance impact

- 6.1 Internal Audit is of the view that failure to address these findings increases the risk of operational inefficiencies, sub-optimal care and cost overruns by the EIJB.

Equalities impact

- 7.1 No direct impact.

Sustainability impact

- 8.1 No direct impact.

Consultation and engagement

- 9.1 None

Background reading/external references

None.

Richard Bailes

Chief Internal Audit and Risk Officer

Links

Coalition pledges	P30 - Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO2 - Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health
Appendices	Appendix 1: Integrated Health & Social Care Internal Audit

The City of Edinburgh Council **Internal Audit**

Integrated Health and Social Care

Final Report
August 2015

Contents

Executive summary	2
1. Background and scope	3
2. Main Findings	5
3. Detailed findings	6
Appendix 1 – Basis of our classifications	21
Appendix 2 – Terms of Reference	22

Although there are a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility.

Executive summary

Conclusion

The implementation of the Edinburgh Integration Joint Board (EIJB) is ongoing, with the board being legally established on 27 June 2015 and meeting for the first time on 17 July. After this initial meeting, the EIJB will work with the Council and NHS Lothian (NHSL) to ensure that all agreed functions can be delegated to the EIJB by the statutory deadline of 1 April 2016.

Through this audit, we have identified several areas where there is significant scope for improvement, in particular relating to financial management and governance. Failure to implement improvements to the current structure and governance could result in delays to implementation of the integration scheme and failure to meet the 1 April 2016 transition deadline with an effective EIJB in place.

Summary of Findings

The four areas which were investigated during the audit work can be summarised in the following table:

Control Area	Overall Risk Rating
Governance	High
Risk Management	Low
Project Management	Medium
Finance (includes one 'critical' rated finding)	High

Our detailed findings and recommendations are laid out within Section 3: Detailed Findings.

1. Background and scope

Introduction

The Public Bodies (Joint Working) Scotland Act 2014 was designed to ensure better connected and co-ordinated services for adults through the integration of health and social care services currently provided separately by local authorities and health boards.

The City of Edinburgh Council (CEC) and NHS Lothian (NHSL) will create an Integration Joint Board, the EIJB, to plan for and oversee the provision of adult care within the city. A shadow board was in place at the time of the audit. The new EIJB was established in law on 27 June 2015 and its first meeting took place on 17 July 2015. Functions, services and resources will be fully delegated by 1 April 2016.

The creation of the Integration Joint Board means that a single legal entity will have responsibility for the strategic planning, resourcing and operational oversight of a number of health and social care services. This will require strategies to be in place to ensure that there is an effective relationship between the three bodies, and that any items which require further discussion within either CEC or NHSL can be considered within the appropriate area, whilst still being under the ultimate remit of the EIJB.

In March 2015, the Draft Integration Scheme was submitted to the Scottish Government. It was reviewed and an update made. This update was approved, leading to the establishment in law of the EIJB. This scheme details how the Board intends to operate, covering key areas such as delivery arrangements, clinical care, governance and finance. Prior to 1 April 2016, more detailed governance arrangements will need to be put in place, clearly defining which responsibilities each of the stakeholders will have, as well as how they will work together to support the EIJB and to achieve full integration.

The Scottish Government issued the "Guidance for Integration Financial Assurance" in December 2014. This guidance provides advice for bodies involved in integration on how to use assurance to ensure that Integration can occur successfully. It is recommended that during the integration process, internal audit is used to provide assurance on:

- The plans for financial governance, risk and financial assurance;
- Whether lessons learned from other integration projects have been used;
- The financial provisions to be included in the Integration Scheme; and
- That the financial measures which will be used by officers to assess whether integration has met its objectives have been identified and that there is a process for obtaining data which can be used for base lining.

This review has been completed as a part of the assurance work required for the EIJB, with NHS Lothian performing a similar review in line with their requirements. The scope of the NHS Lothian report specifically did not include finance.

The Corporate Programme Office (CPO) within CEC has performed a Health Check on Health and Social Care (H&SC) Integration to provide guidance and recommend areas of best practice which could be beneficial to CEC at the current stage in the process. We would also note that CEC commissioned KPMG to prepare a report on the achievability of the H&SC budget for 2015/16. As part of phase II of their work, KPMG is working with H&SC to create business cases and plans for a transformational programme to address the opportunities identified in their

earlier report to build on existing work and create a sustainable Adult Social Care service.

Scope

This review was designed to assess the development of Governance, Risk Management and Project Management for the Integrated Board and consider the approach used to allocate finances from the Council to the EIJB. The sub-processes and related control objectives included in this review were agreed within the Terms of Reference (Appendix One).

The approach taken was:

- Obtain an understanding of the processes and controls in place through discussions with key personnel, review of systems documentation and walkthrough tests; and
- Evaluate the design and maturity of the controls and processes in place.

This work was performed using the checklist shown within the Terms of Reference and does not cover clinical governance.

To avoid any overlap with the KPMG report, we have not considered the feasibility of planned savings for 15/16 within the Adult Social Care budget, or the deliverability of this budget.

2. Main Findings

The EIJB draft Integration Scheme was agreed by the Scottish Government following a 12 week approval process in May 2015. This scheme takes into consideration that the EIJB is not planned to be fully operational until 1 April 2016, therefore acknowledging that there are still many considerations to be made and many areas to be worked on prior to implementation, as is the case across Scotland.

Through our testing, we noted a total of 9 control weaknesses. These have been assessed as 1 critical risk, 3 high, 2 medium and 3 low.

The key risks identified can be summarised as follows:

Governance

- There is no Chief Officer or Chief Financial Officer in place, meaning that no officer has overall ownership for the project; and
- There is not clarity around what will replace the current Joint Leadership Group (which is due to stand down), and in what format this group will meet;

Project Management

- There is not yet clarity over how the integrated management structure which is to be put in place will operate, or how this will report to the Chief Officer. In addition to this, there is not yet agreement over how functions that will not be delegated to the EIJB will support it, or how these will be split between the partner bodies

Risk Management

- The EIJB's risk management function and risk appetite have not yet been developed.

Finance

- There is no clarity around whether the funding provided by the partners in the EIJB is aligned with the functions /services they assess as being required;
- As the EIJB has not yet been formed, CEC is meeting the costs that they are incurring in connection with establishing the EIJB. The costs of this are included within the Health and Social Care budget, currently running with a predicted overspend net of current savings planned of £9.5m; and
- Once established, should the EIJB have an overspend, it may request further funding from CEC or the NHS. There is no clarity over CEC's responsibilities in such an event.

3. Detailed findings

Governance	
1.1: An integration Joint Board is in place and attended by all relevant stakeholders	High
<p>Observation and Risk</p> <p>It has been agreed that during the transition year (1 April 2015 to 1 April 2016), once the EIJB is fully established and ready to have functions delegated to it, the leadership group will stand down in its current form. However, there is not yet clarity around what will replace the leadership group, what the format will be and which stakeholders will be included.</p> <p>The CEC Finance and Resources Committee, NHS Lothian and members of the shadow EIJB have supported and approved an outline structure of a future group "in principle" however the detailed structure remains to be agreed. The elements of the arrangements where agreement remains to be reached includes the extent of which administrative, technical and professional services will be delegated (or provided via a Service Level Agreement) to the EIJB.</p>	
<p>Recommendation</p> <p>A clear remit for the group to replace the current leadership group and how this will interact with the EIJB should be agreed. This should include the composition of the membership, as well as how the reporting structure will operate.</p>	
<p>Management Response</p> <p>The remit of the current Leadership Group is to establish a fully functioning EIJB in readiness for formal delegation of functions to it. It will not be stood down until this work is completed, which will not be before December 2015. Plans are underway to establish relevant groups to function after 1 April 2016.</p> <p>Management Action</p> <p>The role and membership of the replacement joint stakeholder group will be developed by December 2015. Work has started on this in relation to a 'Risk Sharing' stakeholder arrangement. This timeline fits with that for developing and approving the statutory Strategic Plan which is the pre-requisite for the delegation of functions to the EIJB.</p>	
<p>Responsibility:</p> <p>Chief Executives of City of Edinburgh Council and of NHS Lothian</p>	<p>Target date:</p> <p>31 December 2015</p>

1.2: The Board has clear terms of reference and the decision making processes are clear

High

Observation and Risk

There is no Chief Officer (CO) or Chief Finance Officer (CFO) appointed for the EIJB. The previous Joint Director left the Council/NHS in June 2015. The interim arrangements established involve an NHS lead for integration and the Chief Social Work Officer as the Council's SRO. The split interim arrangement mean that there is no single owner with overarching control and responsibility for the project. The split ownership for the project presents a risk that progress is not being made in an organised manner, with the two bodies not acting in concert to achieve the same aims.

A lack of CO and CFO results in a risk that there is insufficient oversight of the EIJB strategic plan and budget as a whole, which is particularly relevant at the current time given the overspend occurring within CEC H&SC budget. There is also no independent adjudicator in any financial disagreements between the NHS and CEC regarding funding.

The most up to date Strategic Business Case is dated 2 March 2015, and is already obsolete. This brought the project to a set position; however did not provide clarity around the future operations of the EIJB in the period up to 1 April 2016. The Statutory Integration Scheme set out the arrangements that must be put in place prior to delegation of functions.

The EIJB's draft strategic plan has been developed in partnership with a wide range of stakeholders. It was approved by the EIJB for public consultation on 17 July 2015 and this consultation launched on 3 August. The final draft plan, taking account of the consultation will be presented to the EIJB in December for approval and in readiness for 1 April 2016. We would expect the EIJB's CO and CFO to play a significant role in co-ordinating and formalising this process.

Recommendation

A Chief Officer and a Chief Financial Officer should be appointed as soon as possible to ensure that there is clear ownership of the project and the budget for the integrated services.

The relevant remits and documents demonstrating the aims of the EIJB in the coming periods should be written and used during the period to 1 April 2016.

Management Response

A recruitment process for the Chief Officer has started and a recruitment agency appointed. Options for an interim CFO are being considered by the CEC Head of Finance and NHS Lothian Director of Finance.

The split responsibility in the interim arrangements will be managed though the Joint Leadership Group, the associated Chief Officer Group and the Unscheduled Care Group which both interim lead officers will attend.

Strategic Business Cases are, by their very nature, a snap shot in time. The statutory Integration Scheme identified a range of additional arrangements, such as EIJB role, governance, performance and risk arrangements within the EIJB. This was consulted on in February and the final version published following approval by Scottish Government in May.

The statutory Strategic Plan will provide more detail on the strategic direction, blueprint and financial allocations across the delegated functions. This is currently in development in line with statutory requirements (started in December 2014) with the input of the EIJB. A draft was considered by the EIJB at its first meeting.

Implementation plan(s) will be devised to reflect the Strategic Plan which will include resourcing and milestones. Detailed business cases will be required by the EIJB for specific major service re-design proposals to justify any movements of resources across functions.

Management Action

1. Appoint CO and CFO
2. Implement content of Integration Scheme
3. Complete Strategic Plan
4. Develop business cases for implementation of relevant areas of Strategic Plan, including any changes to financial spend
5. Appoint interim CFO

Responsibility:

1. Chief Executives of City of Edinburgh Council, NHS Lothian and Chair of EIJB.
2. Strategic Plan – Strategic Planning Manager
3. Implementation Plan – EIJB Chief Officer
4. Detailed Business Cases – relevant SROs for the service re-design.
5. Head Finance of City of Edinburgh Council and NHS Lothian Director of Finance.

Target date:

1. 31 December 2015
2. 31 December 2015
3. 30 April 2016
4. During 2015/16 as advised by IJB
5. 31 August 15

1.3: The Board is receiving sufficient information to take informed decisions	Low
<p>Observation and Risk</p> <p>There is a set deadline within the Integration Scheme of 1 April 2016 for the EIJB to be fully formed. Although this does not include the strategic plan being implemented, nor the full re-design of service activities, specific items as disclosed within the scheme must be agreed by this date such as an approved Strategic Plan and financial assurance over the scheme.</p> <p>The intention is that by 1 April, there will be a high level plan which will assist in agreeing the detail of how functions will be delegated, and how the Board will operate effectively, with the detail of this being agreed in the period after 1 April 2016. There is therefore a risk that the high level plan will not be in place by 1 April, or there will not be an effective plan due to this set deadline. This could then lead to inefficiencies, budgets to be stretched and staff to be performing work for which there are not yet sufficient resources in place.</p> <p>Management within the Shadow Health and Social Care Partnership (the Shadow EIJB) receive information regarding progress of the project via reports made by the CEC programme team using information from the Work Programme. This demonstrates the key tasks which must be completed, as well as the lead CEC and NHS officer for each and the progress of each against its assigned deadline. This ensures that the decisions which are made are informed. Therefore, the risk identified is not relating to the reliability of the data, but around the requirement for key deadlines to be agreed and met.</p>	
<p>Recommendation</p> <p>The EIJB should agree fixed deadlines for key decisions to be made, and both partners should confirm that an outcome must be agreed by this point, to allow delegation to occur on 1 April 2016.</p> <p>A detailed service redesign implementation plan should be prepared.</p>	
<p>Management Response</p> <p>The Integration Scheme identified all the major matters to be implemented prior to delegation of functions. A joint project plan is in place to deliver these actions. The Strategic Plan is the mechanism by which service redesign can occur.</p> <p>Management Action</p> <p>Monitor and maintain project plan</p> <p>Develop Strategic Plan</p>	

Responsibility:	Target date:
SRO and Programme Manager	Ongoing
SRO and Strategic planning Manager	31 December 2015

Risk Management	
2.1: A risk process has been developed to monitor and assess risk facing the board	Low
<p>There is a risk register in place which is used by the programme management to assess the risks within the project, and to understand which controls are in place to mitigate these risks. The EIJB was established in law on 27 June and therefore a risk appetite for the EIJB has yet to be determined.</p> <p>Deep dive investigations are performed in relation to Health and Social Care Integration and are reported to the shadow board.</p> <p>The risk process is been developed in line with CEC risk management methodology, and through discussion between the programme teams at CEC, the NHS and involving the current shadow board.</p> <p>The first draft of the risk management strategy, including proposals for addressing the risk appetite, for the EIJB will be reported to the first EIJB meeting in July 2015.</p>	
<p>Recommendation</p> <p>The EIJB should continue to develop its risk function as the shape of the strategic plan becomes clearer. The EIJB should also seek to establish its risk appetite to assist the continued development of its risk function.</p>	
<p>Management Response</p> <p>Agree with recommendations</p> <p>Management Action</p> <p>To support the EIJB to develop its Risk Strategy and risk appetite.</p>	
<p>Responsibility:</p> <p>Director of Strategic Planning NHS Lothian</p> <p>Director of Social Care</p>	<p>Target date:</p> <p>1 April 2016</p>

2.2: The risk process is embedded into the day to day activities of the Board	No issues noted
<p>We identified no significant issues in relation to this control objective.</p> <p>The risk process has been developed in line with CEC Risk Management guidance and by staff who have experience in developing risk strategies and documentation.</p> <p>Risk is reported on a regular basis within the updates to the Finance and Resources Committee, as well as the Shadow Health and Social Care Partnership. Any significant matters are reported to CEC as required.</p>	

Project Management	
3.1: The project plan is broken down into appropriate work streams and contains relevant milestones.	Medium
<p>Observation and Risk</p> <p>Although responsible officers have been assigned from both NHS Lothian and CEC for several processes, it is not clear how, in the final EIJB, functions will be split between the two parties. This includes, but is not limited to, how the EIJB will use the skills and resources of both partners effectively, and meet the demands for Health and Social care appropriately.</p> <p>Staff who support the Integration Joint Board are employed by CEC or NHS Lothian independently, and this will continue to be the case following delegation. There is therefore a risk that there will be difficulty in managing resources jointly, for example it may take longer to agree changes in working times or structures, as these will have to go through both bodies. In addition, when forming the board it may take longer to make key decisions as some members of the management structure will not be directly employed by the EIJB, and must contact their home organisation prior to making key decisions.</p> <p>An integrated management structure has not yet been agreed, which may take a significant amount of time to implement once the structure has been agreed.</p> <p>Functions which are not delegated, for example business support roles, will be managed separately by CEC and NHSL. The operation of these functions will need to be agreed by both bodies, and the two must work co-operatively to agree how best to support the IJB. This will be made more difficult by the changes in management as internal secondments finish, and as the new management structure begins, therefore potentially losing continuity between the pre and post delegation management structures. .</p>	
<p>Recommendation</p> <p>NHS Lothian and CEC will need to work together to ensure that the staff being recruited have the right mix of skills and the correct number of people with these skills are being recruited. A formal programme should be set up which assesses the staffing levels and manages them on an EIJB level, rather than separately by the two organisations. This will ensure that the appropriate staff are employed and used in the right places, whilst ensuring that the operations of the two partners as separate entities does not suffer.</p>	
<p>Management Response</p> <p>The Integration Scheme outlines the proposals for determining Business Support Services, including programme/project management. An initial meeting took place with NHS Lothian colleagues in June to consider a joint approach. NHS Lothian Directors of business support functions are to lead on a Lothian approach and to engage with councils.</p> <p>A series of focus groups is planned during summer 2015 with business support colleagues in the Council to discuss options for supporting the EIJB. This work will be undertaken with the</p>	

Project Manager responsible for the Council Business Support Project within the CEC Transformation programme.

Proposals from this will impact on the management structure under the EIJB Chief Officer. This structure is currently in development for the integrated functions.

Service level agreements will be required for any services provided out with this organisational structure

Management Action

1. Undertake Focus groups for EIJB business support services and establish options
2. Implement integrated organisational management structure
3. Establish SLAs for business support outwith organisational management structure

Responsibility:

1. Integration Programme Manager and BSS Project Manager
2. EIJB Chief Officer
3. EIJB Chief Officer

Target date:

1. 30 October 2015(or as defined by Council BSS Programme)
2. 30 April 2016
3. 1 April 2016

3.2: The Board receives regular updates as to progress against the project plan/milestones	No issues noted
<p>We identified no significant issues in relation to this control objective.</p> <p>The Shadow Board and Council's Finance and Resources Committee receive reports from the CEC programme team using information which is filtered from management into the Work Programme. In addition, specific risks as well as any known delays in implementation of the project are discussed and reported. This includes progress against milestones and key project objectives.</p>	

Finance	
4.1: There is clarity over the services which the Board will be responsible for and that the proposed CEC budget transfer is aligned to those services	Medium
<p>Observation and Risk</p> <p>The cost of services and how they will be allocated between CEC and NHS Lothian after the EIJB takes over responsibility for services has not yet been agreed. Therefore, the budget contribution which has been designated for the EIJB by CEC cannot be assessed to understand whether it is aligned to the services for which CEC will be responsible, or whether the funding is in line with what the EIJB considers will be required to provide an appropriate level of service provision.</p> <p>CEC is in the process of putting detailed mapping in place (on the basis of a number of assumptions) as part of the preparation work for the Strategic Commissioning Plan, but this is currently being undertaken in isolation. We note that the Strategic Planning Group does include members from NHS Lothian, however the mapping is being undertaken by CEC.</p> <p>Although the Integration Scheme states that both parties will “work together in the spirit of openness and transparency” in relation to finances, both are experiencing significant financial pressures, adding to the risk of insufficient funds being available for effective operation of the EIJB based on services assessed as being required..</p>	
<p>Recommendation</p> <p>The EIJB needs to complete the Strategic Commissioning Plan and identify the budget they believe is required to fulfil their remit.</p> <p>The alignment of services with this plan should be clearly documented and a responsible party for each service agreed.</p>	
<p>Management Response</p> <p>Agree with recommendations.</p> <p>Management Action</p> <p>KPMG has been commissioned to support H&SC to prepare a transformational programme for adult social care services to address current budget pressures. A due diligence process will also be undertaken for the 2016/17 budget.</p>	
Responsibility:	Target date
Head of Finance	31 March 2016

Finance	
4.2.1 : The CEC Budgeting process incorporates input from operational staff, incorporates appropriate assumptions for demographic change and is subject to robust challenge	Critical
<p>Observation and Risk</p> <p>The CEC budget has been determined in line with CEC’s normal processes and procedures. This involves consideration of demographic and cost trends, consulting with stakeholders from throughout the business to form the initial budget, escalating it to Committees as appropriate and seeking approval from the Finance and Resources Committee. This budget has been prepared whilst being mindful of other cost pressures within the council.</p> <p>There remain significant pressures on Adult Social Care. The funding gap net of £14m planned saving, is currently predicted to be £6m for 15/16.</p> <p>As the EIJB has not yet been formed, any overspends on service delivery incurred before 1 April 2016 will fall to the party who incurs them. Therefore any overspend for 15/16 will have to be funded by CEC through reducing pressures and delivering mitigating actions as discussed at Committee level.</p> <p>The KPMG report, which provides a financial assessment of Adult Services, has considered these expected savings. Using a risk rating over expected savings, the net funding gap is predicted to be £9.4m – an additional £3.4 million above the gap predicted by the Council. We believe that risk remains in the savings that KPMG expect to be delivered and consider that an inferior outcome on these savings remains possible.</p> <p>The likely overall cost position for 2015/16 remains dynamic and management is continuing to seek additional savings.</p>	
<p>Recommendation</p> <p>Management should continue to monitor the current Adult Health & Social care spend closely, track progress on identified savings, seek further savings and escalate accordingly as the year progresses.</p>	
<p>Management Response</p> <p>Agree with recommendations.</p>	
<p>Management Action</p> <p>Monthly financial monitoring is being undertaken along with trend data on key cost drivers e.g. care at home hours, number of residential places.</p> <p>The Corporate Leadership Group (CLG) is considering activities that can be taken to mitigate the financial impact on the Council of this predicted overspend. These will be considered by</p>	

F&R Committee which will examine how this overspend is being managed.

Responsibility: Head of Finance

Target date: 30 September 2015

Finance	
4.2.2: The CEC Budgeting process incorporates input from operational staff, incorporates appropriate assumptions for demographic change and is subject to robust challenge	Low
<p>Observation and Risk</p> <p>The current level expenditure incurred by CEC to introduce the integration scheme is not transparent. This relates to the costs to establish the EIJB, as well as the full costs of implementing a re-designed service and associated support costs which will be required as implementation occurs. Costs are spread across a number of budget heads within Adult Health and Social Care. Therefore, overruns specifically relating to the costs of integration cannot easily be identified.</p>	
<p>Recommendation</p> <p>Action should be taken to identify the cost of the integration process to date, and how much this varies from the integration budget set aside by CEC. The costs of the integration process should then be monitored going forward.</p>	
<p>Management Response</p> <p>The cost of this transition is within existing budgets and is in the main, being undertaken by existing staff who have been budgeted for within the Health & Social Care budget.</p> <p>A fixed sum has been provided by Scottish Government for transitional costs which is substantially less than that requested. A protocol between the organisations will be put in place for the draw down of agreed expenditure against transition funding provided.</p> <p>As a consequence, management do not consider that it is cost effective to prepare detailed management accounts for this spend as it will have no impact on the level of funds received from the Scottish government.</p> <p>Management Action</p> <p>Establish protocol for draw down of transition funding.</p>	
<p>Responsibility:</p> <p>Head of Finance</p>	<p>Target date:</p> <p>31 December 2015</p>

<p>4.3: The mechanisms for addressing any overspend by the Board are understood.</p>	<p>High</p>
<p>Observation and Risk</p> <p>The process for addressing and reducing any overspend is as follows:</p> <ul style="list-style-type: none"> - The Chief Officer of the EIJB has to take action to prevent the overspend or minimise its effects - Failing this, the Chief Financial Officer develops a recovery plan involving generating savings and moving resources. This plan is then presented to the EIJB for approval. - If this does not reduce the overspend, then the two contributing parties (CEC and NHS Lothian) can be asked to provide further funding to the EIJB, either as a one-off payment or as a loan. <p>Therefore, a reduction in overspend relies upon savings being agreed between the EIJB, NHS and CEC. If this fails, then the EIJB may request that CEC and the NHS provide more funding.</p> <p>Due to the cost pressures facing all public sector bodies, and known difficulties in budgeting in Adult Health and Social care, there is a strong possibility that the EIJB will seek additional funding from CEC. It is not clear what the process is if this occurs, and what CEC's ultimate responsibilities are regarding any additional funding requests.</p>	
<p>Recommendation</p> <p>It should be clarified and agreed exactly how any overspend will be managed, what the mechanism is for the EIJB to seek additional funding, and what CEC's responsibility is in this circumstance.</p>	
<p>Management Response</p> <p>Accepted that further clarification on this issue is required, however, the key task is to develop robust budgets for 2016/17.</p> <p>Management Action</p> <p>Further due diligence will be undertaken as part of the 2016/17 budget process which will assist in discussion re responsibility of overspends between parties.</p>	
<p>Responsibility:</p> <p>EIJB Chief Officer</p>	<p>Target date:</p> <p>28 February 2016</p>

Appendix 1 – Basis of our classifications

Management Action Ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance ; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2 – Terms of Reference

Integration of Health & Social Care

Terms of Reference – Budgeting process

To: Hugh Dunn
Head of Finance

From: Magnus Aitken
Chief Internal Auditor

Date: 8 June 2015

Cc:

This review is being undertaken as part of the 2015/16 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2015.

Background

The Public Bodies (Joint Working) Scotland Act 2014 aims to provide bettered connected and co-ordinated services for adults through the integration of health and social care services currently provided by local authorities and health boards.

The City of Edinburgh Council (CEC) and NHS Lothian (NHSL) will create an Integrated Board to over-see adult care provision. A shadow board has been created with a go live date for the Integrated Board by 1 April 2016.

The creation of the Integrated Board will result in the share of responsibility for the operational provision of a number of services between CEC, NHSL and the Integrated Board.

Scope

The scope of this review will be to assess the development of Governance, Risk Management, and Project Management for the Integrated Board and consider the approach used to allocate finances from the Council to the Integrated Board. The sub-processes and related control objectives included in the review are:

Sub-process	Control Objectives
Governance	1.1 An Integrated Board is in place and attended by all relevant stakeholders; 1.2 The Board has clear terms of reference and the decision making processes are clear; and 1.3 The Board is receiving sufficient information to take informed decisions.
Risk management	2.1 A risk process has been developed to monitor and assess risk facing the Board; and

	2.2 The risk process is embedded into the day to day activities of the Board
Project management	3.1 The project plan is broken down into appropriate work streams and contains relevant milestones; and 3.2 The Board receives regular updates as to progress against the project plan/milestones.
Finance	4.1 There is clarity over the services which will the Board will be responsible for and that the proposed CEC budget transfer us aligned to those services; 4.2 The CEC Budgeting process incorporates input from operational staff, incorporates appropriate assumptions for demographic change and is subject to robust challenge; and 4.3 The mechanisms for addressing any overspend by the Board are understood.

Approach & limitations of scope

Our audit approach will be as follows:

- Obtain an understanding of the processes and control in place through discussions with key personnel, review of systems documentation and walkthrough tests; and
- Evaluate the design and maturity of the controls & processes in place.

We have set out in Appendix 1 the checklist we intend to use to establish the maturity of the processes and controls in place during the review process.

We are aware of the KPMG review of the CEC Adult Social Care budgets for 2014/15 and 2015/16. As part of this review KPMG are considering the deliverability of the 2015/16 Adult Social Care budget and the feasibility of the planned savings. To avoid an overlap with this review, we will not consider these areas.

NHS Lothian

The Internal Audit Function of NHSL are conducting a similar review with a similar scope. CEC Internal Audit will co-operate with NHSL IA to attempt to ensure that the scopes of the two reviews align. It is anticipated that the results of the NHSL IA review will be made available to the shadow board members in due course.

Internal Audit Team

Name	Role	Contact Details
Magnus Aitken	Chief Internal Auditor	0131 469 3143
Kit Millar	Auditor	07711 562 347

Key Contacts

Name	Title	Role	Contact Details
Hugh Dunn	Head of Finance	Review Sponsor	0131 4693150
Susanne Harrison	Integration Programme Manager	Key contact	0131 469 3982
Karen Dallas	Principal Accountant – Health & Social Care	Key contact	0131 529 7937

Appendix 1:

Governance	
1.	Is there a Project Board or similar senior decision making body, attended by all relevant stakeholders, in place and maintaining a high level monitoring role over the project and ensuring that decisions made regarding the project are adequately considered?
2.	Are roles and responsibilities clearly articulated and understood including: <ul style="list-style-type: none"> • terms of reference, role descriptions and delegated authorities? • clear identification of the management structure and decision making process within the project, including who is acting as project manager? • a process for the escalation of issues to the appropriate forum, where decisions will be made on the action (s) required to address them?
3.	Is the Project Board receiving regular information/evidence that the project and key actions are 'under control' and risks are being managed in terms of delivery on time, within budget and the expected outcomes originally intended?
4.	Is there a realistic and sufficiently detailed project plan to ensure that tasks, relevant officers' responsibilities and timescales for actions and decision making points are clear and subject to regular review/monitoring?
5.	Are there clear governance arrangements in place to ensure that when project issue cross organisational boundaries there are arrangements in place to ensure sustainable alignment with the corporate objectives and management arrangements of all organisations involved?
6.	Is there a requirement for on-going independent review and challenge of the project, to provide assurance that the project continues to be effective and if so, have any such arrangements been defined and approved?
Risk Management	
7.	Has a risk register been developed, which assesses the likelihood and impact and the resultant relative importance of individual risks, and are the results used to inform the management of project risks and reported to the Project Board?
8.	Are the project's risk processes consistent with, and informed by, CEC's and NHSL's risk management frameworks?
9.	Is the project's risk management framework embedded within the day-to-day project processes, such as constraints, assumptions, risks, dependencies?
10.	Has the Project Board established tolerances for cost, time and quality for the project and put in place agreed clear escalation levels should the level of risk be outside agreed limits?
Project Management	
11.	Is there a project plan broken down into manageable work streams and relevant project milestones which are meaningful to the Project Board to allow accurate and frequent tracking of progress on the project and maximise visibility of critical path activities and any inter-dependencies?

12.	Does the Project Board regularly receive an analysis of progress against plan/key milestones and/or the effects of any slippage in time, cost, scope or quality?
13.	Has the Project Team developed a resource plan for the duration of the project, in order to inform the Project Board on future and on-going resource requirements?
14.	Does the Project Team have sufficient allocated resources and the necessary skills and/or access to relevant specialist expertise to achieve the project objectives successfully?
15.	Is there regular reporting of performance, against pre-defined criteria on cost, time and quality and project milestones to the Project Board and to other key stakeholders (e.g. CEC and NHSL) which clearly highlights the key issues affecting the project at the time of reporting?
Finance	
16	The allocation of services to The Project Board is clear and the proposed budget allocation made by CEC accurately reflects the budgets for the services that the Project Board will administer.
17	The CEC budgets for Adult Social Care incorporate the input of operational staff, follow the CEC standard methodology and are subject to a robust review process.
18	Significant assumptions within the CEC budgets for Adult Social Care (including allowances for demographic change) and deviations from previous experience should be identifiable and understood.
19	The mechanisms for addressing and allocating any over spend by the Integrated Board are understood.
20	There are sufficient monitoring processes in place to ensure that any potential overspend by the Integrated Board which would have an impact on CEC is detected timeously.