

Argyll & Bute Health & Social Care Partnership

Internal Audit Report

August 2023

FINAL

Financial Management Arrangements

Audit Opinion: Substantial

	High	Medium	Low	VFM
Number of Findings	0	0	1	0

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1. Executive Summary

Introduction

1. As part of the 2023/24 internal audit plan, approved by the Audit & Risk Committee in April 2023, we have undertaken an audit of Argyll & Bute Health & Social Care Partnership (HSCP) system of internal control and governance in relation to Financial Management Arrangements.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with Health & Social Care Partnership officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the HSCP.
3. The contents of this report have been agreed with the appropriate Health & Social Care Partnership officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Financial management is the strategic planning and managing of an organisations finances to better align their finances to their corporate aims and objectives. It is about identifying resources, devising a financial plan, setting budgets and establishing procedures to monitor and control their financial undertakings. It is about efficient and effective management of the financial resources of the HSCP.
5. The financial resources available to the HSCP in 2022/23 totalled £341m (Health Services £251m and Social Work £90m).
6. The Integration Joint Board (IJB) was established under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 and is a Section 106 body as defined in the Local Government (Scotland) Act 1973. The Partnership is a distinct legal entity with a board of governance, the IJB which has responsibility and accountability for the planning, resourcing and oversight of the operational delivery of integrated services as outlined in its Strategic Plan. The IJB was delegated resources and responsibility for Health and Care service delivery from 1 April 2016.
7. The HSCP is responsible for the planning and delivery of all community and acute health and social care services for adults and children throughout the region. This includes services delivered directly and a wide range of services which are purchased from external providers including NHS Greater Glasgow and Clyde.
8. The HSCP seeks to look three years ahead in respect of its financial planning. This is particularly challenging in the current context with high levels of uncertainty relating to funding and inflation. It is expected that significant challenges lie ahead in respect of public funding in Scotland and financial pressures will require to be managed through on going value for money

and efficiency improvement work, the implementation of new ways of working and careful forward planning.

9. The Finance & Policy Committee of the IJB Board meets regularly in order to scrutinise performance against budget, progress with the delivery of savings and the Transformation Programme. Improving financial management and governance has been a priority for a number of years, steps taken have contributed to the much improved overall financial position the HSCP is now in. The HSCP continues to seek to identify ways of improving efficiency and has been able to generate funds to enable investment in longer term service transformation.
10. The IJB has a robust approach to Strategic Risk Management and responsibility for oversight of financial risks and mitigations sits with its Finance & Policy Committee. The Financial plan sits alongside a range of HSCP strategic and operational planning documents. These include the new Joint Strategic Plan and Commissioning Strategy.

Scope

11. The scope of the audit was to provide assurance over arrangements for financial planning, management and savings as outlined in the Terms of Reference agreed with the Head of Finance and Transformation on 10 July 2023.

Risks

12. The risks considered throughout the audit were:
 - SRR01 - Financial Sustainability
 - Audit Risk 1: failure to have robust financial management processes in place
 - Audit Risk 2: failure to have robust financial reporting arrangements in place

Audit Opinion

13. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
14. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Recommendations

15. We have highlighted one low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - In order to ensure business continuity, consideration should be given to producing a set of procedures setting out processes and timeframes for the submission of the various financial management reports.

16. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

17. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Strategic financial management arrangements are in place, including a financial management plan	SRR01 Audit Risk 1	Substantial	Strategic Financial Management Planning arrangements are in place which are a combination of individual processes and procedures within the NHS and within Argyll & Bute Council (the Council (SW)) to inform the processes and reporting within the HSCP/IJB.
2	Financial management policies are in place	Audit risk 1	Reasonable	The NHS and the Council (SW) have their own systems and processes in place for financial management within each organisation. Timetables, processes for financial management and reporting are largely set by the two partner bodies. Whilst financial management processes are well understood and working well in terms of what information is required, how the information is presented and when information is provided to the Head of Finance and Transformation (HSCP) there are no written procedures in place.
3	Regular financial management reports are prepared and reported	Audit Risk 2	High	Reports are prepared on a regular basis by the Head of Finance and Transformation. Financial management reports are presented to the Finance and Policy Committee of the HSCP and the IJB. In addition, the HSCP have saving review meetings (Argyll & Bute Savings Review Group) for each of the services within Social Work. Representatives from the HSCP, the NHS, management, finance and Social Work attend these meetings allowing each budget holder discusses progress against savings on a rolling basis.

18. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Strategic financial management arrangements are in place, including a financial management plan

19. Strategic Financial Management Planning arrangements are in place within the HSCP which allows the HSCP to identify available resources, set and monitor budgets and identify possible savings options.
20. The 2023/24 Financial Plan and budget was presented to the Integrated Joint Board (IJB) at a meeting on 29 March 2023 where the IJB were asked to approve the proposed budget for 2023/24. The Financial Plan and Budget report provided a proposed budget supported by a Value for Money Strategy for 2023/24. The Financial plan sits alongside a range of HSCP strategic and operational planning documents. These include the new Joint Strategic Plan and Commissioning Strategy.
21. The Budget and Medium Term Financial Plan 2023-2026 were noted on the minutes of the meeting of the Finance and Policy Committee on 27 January 2023. This report provided the Finance & Policy Committee with an opportunity to consider the updated budget outlook for the 2023/24 financial year and medium term financial plan and to note the high level of risk and uncertainty. In addition they were asked to note the forecast budget gap and the progress made to date in identifying proposals to address the budget gap.

Financial management policies are in place

22. Whilst financial management processes are well understood and working well in terms of what information is required, how the information is presented and when information is provided to the Head of Finance and Transformation (HSCP) from the NHS and the Council (SW), there are no written procedures in place.

Action Plan 1

23. Services provided by the HSCP are largely funded by allocations made by the Scottish Government to Local Authorities and NHS Boards. They then pass on funding for the various delegated services to HSCPs. The NHS and Argyll & Bute Council Social Work department have separate financial management arrangements in place to identify their own resources, to monitor and to report on their own budgets internally within their organisations. Timetables, processes for financial management and reporting are largely set by the two partner bodies.
24. The HSCP have processes in place which combine financial information received from the NHS and the Council (SW). Both organisations submit separate reports to the Head of Finance and Transformation of the HSCP for consolidation and reporting within the HSCP. Whilst the NHS and the Council (SW) run completely different basis's for accounting monthly (the NHS run accrual accounting basis and the Council (SW) largely based on a forecasting basis) this is managed appropriately by the HSCP.
25. The financial management information provided by the NHS and the Council (SW) to the HSCP allows the HSCP to identify available resources, set and monitor budgets and identify possible savings options.

Regular financial management reports are prepared and reported

26. Reports are prepared on a regular basis by the Head of Finance and Transformation. Financial management reports are reported to the Finance and Policy Committee and the IJB. The Finance & Policy Committee of the IJB Board meets regularly in order to scrutinise performance against budget, progress with the delivery of savings and discuss the Transformation Programme.
27. The HSCP hold saving review meetings (Argyll & Bute Savings Review Group) for each of the services within Social Work. Representatives from the HSCP, the NHS, management, finance and Social Work attend these meetings allowing each budget holder discusses progress with savings on a rolling basis. The meetings are chaired by the Head of Finance and Transformation (the Chief Finance Officer). The meetings are recorded with a list of updates and actions being maintained, including identifying the responsible officer and completion date and target budget savings.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	4	<p>Procedures</p> <p>Whilst policies and procedures are clearly understood by the HSCP, NHS and the Council (SW) there are no written procedures in place.</p>	Business Continuity	A written procedure for the month end financial reporting process will be drafted.	<p>Head of Finance and Transformation</p> <p>31 December 2023</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the HSCP to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.