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Aberdeen City Health & Social Care Partnership
A caring partnership

To: Rhona Atkinson, Chairperson; and Councillor Duncan and Luan Grugeon.

Town House,
ABERDEEN, 3 April 2018

AUDIT AND PERFORMANCE SYSTEMS COMMITTEE

The Members of the **AUDIT AND PERFORMANCE SYSTEMS COMMITTEE** are requested to meet in **Committee Room 2 - Town House** on **TUESDAY, 10 APRIL 2018** at **10.00 am**.

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

TERMS OF REFERENCE

STANDING ITEMS

DECLARATION OF INTERESTS

- 1 Members are requested to intimate any declarations of interest

DETERMINATION OF EXEMPT BUSINESS

- 2 Members are requested to determine that any exempt business be considered with the press and public excluded
- 3 Minute of Previous Meeting - 2 March 2018 (Pages 7 - 14)

GOVERNANCE

- 4 Local Code of Governance (Pages 15 - 30)

- 5 Review of Financial Governance Arrangements (Pages 31 - 90)
- 6 Governance Statement (Pages 91 - 104)

AUDIT

- 7 Internal Audit Annual Report (Pages 105 - 116)
- 8 Internal Audit Plan (Pages 117 - 122)
- 9 Internal Audit Report - Financial Assessments (Pages 123 - 126)
- 10 Internal Audit Report - Social Work Payroll (Pages 127 - 130)

EXEMPT/CONFIDENTIAL BUSINESS

- 11 Private Meeting with Internal and External Audit

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**ABERDEEN CITY INTEGRATION JOINT BOARD
AUDIT & PERFORMANCE SYSTEMS COMMITTEE
TERMS OF REFERENCE**

1	Introduction
1.1	The Audit & Performance Systems Committee is identified as a Committee of the Integration Joint Board (IJB). The approved Terms of Reference and information on the composition and frequency of the Committee will be considered as an integral part of the Standing Orders.
1.2	The Committee will be known as the Audit & Performance Systems Committee (APS) of the IJB and will be a Standing Committee of the Board,
2	Constitution
2.1	The IJB shall appoint the Committee. The Committee will consist of not less than 4 members of the IJB, excluding Professional Advisors. The Committee will include at least two voting members, one from Health and one from the Council.
3	Chair
3.1	The Committee will be chaired by a non-office bearing voting member of the IJB and will rotate between NHS and ACC.
4	Quorum
4.1	Three Members of the Committee will constitute a quorum.
5	Attendance at meetings
5.1	The Board Chair, Chief Officer, Chief Finance Officer Chief Internal Auditor and other Professional Advisors and senior officers as required as a matter of course, external audit or other persons shall attend meetings at the invitation of the Committee.
5.2	The Chief Internal Auditor should normally attend meetings and the external auditor will attend at least one meeting per annum.
5.3	The Committee may co-opt additional advisors as required.
6	Meeting Frequency
6.1	The Committee will meet at least 4 times each financial year. There should be at least one meeting a year, or part therefore, where the Committee meets the external and Chief Internal Auditor without other seniors officers present. A further 2 developmental sessions will be planned over the course of the year to support the development of members.
7	Authority
7.1	The Committee is authorised to instruct further investigation on any matters which fall

	within its Terms of Reference.
8	Duties
8.1	The Committee will review the overall Internal Control arrangements of the Board and make recommendations to the Board regarding signing of the Governance Statement, having received assurance from all relevant Committees.
	Specifically it will be responsible for the following duties:
1.	The preparation and implementation of the strategy for Performance Review and monitoring the performance of the Partnership towards achieving its policy objectives and priorities in relation to all functions of the IJB;
2.	<p>Ensuring that the Chief Officer establishes and implements satisfactory arrangements for reviewing and appraising service performance against the national health and wellbeing outcomes, the associated core suite of indicators and other local objectives and outcomes and for reporting this appropriately to the Committee and Board..</p> <p>The performance systems scrutiny role of the Committee is underpinned by an Assurance Framework which itself is based on the Board's understanding of the nature of risk to its desired priorities and outcomes and its appetite for risk-taking.</p> <p>This role will be reviewed and revised within the context of the Board and Committee reviewing these Terms of Reference and the Assurance Framework to ensure effective oversight and governance of the partnership's activities..</p>
3.	Acting as a focus for value for money and service quality initiatives;
4.	To review and approve the annual audit plan on behalf of the IJB, receiving reports, overseeing and reviewing actions taken on audit recommendations and reporting to the Board;
5.	Monitoring the annual work programme of Internal Audit, including ensuring IJB oversight of the clinical and care audit function and programme to ensure this is carried out strategically;
6.	To consider matters arising from Internal and External Audit reports;
7.	Review on a regular basis actions planned by management to remedy weaknesses or other criticisms made by Internal or External Audit
8.	To support the IJB in ensuring that the strategic integrated assurance and performance framework is working effectively, and that escalation of notice and action is consistent with the risk tolerance set by the Board.
9.	To support the IJB in delivering and expecting cooperation in seeking assurance that hosted services run by partners are working effectively in order

	to allow Aberdeen City IJB to sign off on its accountabilities for its resident population.
10.	Review risk management arrangements, receive annual Risk Management updates and reports and annually review with the full Board the IJB's risk appetite document .
11.	Ensure existence of and compliance with an appropriate Risk Management Strategy.
12.	Reporting to the IJB on the resources required to carry out Performance Reviews and related processes;
13.	To consider and approve annual financial accounts and related matters;
14.	Ensuring that the Senior Management Team, including Heads of Service, Professional Leads and Principal Managers maintain effective controls within their services which comply with financial procedures and regulations;
15.	Reviewing the implementation of the Strategic Plan;
16.	To be responsible for setting its own work programme which will include the right to undertake reviews following input from the IJB and any other IJB Committees;
17.	The Committee may at its discretion set up short term working groups for review work. Membership of the working group will be open to anyone whom the Committee considers will assist in the task assigned. The working groups will not be decision making bodies or formal committees but will make recommendations to the Audit Committee;
18.	Promoting the highest standards of conduct by Board Members; and
19.	Monitoring and keeping under review the Codes of Conduct maintained by the IJB.
20.	Will have oversight of Information Governance arrangements and staffing arrangements as part of the Performance and Audit process.
21.	Ensuring effective IJB oversight of the scrutiny of Serious Incidents in health and social care, including monitoring and reporting systems, timely action, training and improvement activities.
22.	To be aware of, and act on, Audit Scotland, national and UK audit findings and inspections/regulatory advice, and to confirm that all compliance has been responded to in timely fashion.
9	Review
9.1	The Terms of Reference will be reviewed every six months to ensure their ongoing appropriateness in dealing with the business of the IJB.
9.2	As a matter of good practice, the Committee should expose itself to periodic review utilising best practice guidelines and external facilitation as required.

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Aberdeen City Health & Social Care Partnership
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AUDIT AND PERFORMANCE SYSTEMS COMMITTEE

Minute of Meeting

2 March 2018
Town House, Aberdeen

Present: Rhona Atkinson (NHS Grampian (NHSG)) Chairperson; and Councillors Cooke and Duncan; and Luan Grugeon (via teleconference for agenda items 1-9 and 11).

Also in attendance: Alex Stephen (Chief Finance Officer, Aberdeen City Health and Social Care Partnership (ACHSCP)), Tom Cowan (Head of Operations, ACHSCP), Alison MacLeod (Lead Strategy and Performance Manager, ACHSCP), Gail Woodcock (Lead Transformation Manager, ACHSCP), Martin Allan (Business Manager, ACHSCP), Sarah Gibbon (Executive Assistant, ACHSCP), Iain Robertson and Alan Thomson (Legal and Democratic Services, Aberdeen City Council (ACC)), Colin Harvey (Internal Audit); and Natalie Dyce (External Audit, via teleconference for agenda item 10 only).

Apologies: Judith Proctor and Sally Shaw.

OPENING REMARKS FROM THE CHAIR

1. The Chair opened the meeting and welcomed Martin Allan who had recently joined the Partnership as its Business Manager. She also advised that Alison MacLeod would present the Performance Monitoring report as Sally Shaw had submitted her apologies for today's meeting. Due to the acclimate weather conditions, External Audit had been unable to attend today's meeting in person but would join the meeting via teleconference and as such, the Chair proposed to defer item 11 (Private Meeting with Internal and External Audit) on today's agenda to the Committee's next meeting on 10 April 2018; and to re-order today's agenda to consider item 6 (Transformation Progress) following consideration of item 10 (Draft External Audit Strategy). The Committee agreed to these proposals.

The Committee resolved:-

- (i) to defer item 11 on today's agenda until the Committee's next meeting on 10 April 2018;
- (ii) to re-order today's agenda to consider item 6 (Transformation Progress) following consideration of item 10 (Draft External Audit Strategy);
- (iii) to welcome Martin Allan to his new post as the Partnership's Business Manager; and

(iv) otherwise note the information provided.

DECLARATIONS OF INTEREST

2. Members were requested to intimate any declarations of interest.

The Committee resolved:-

To note that no declarations of interest were intimated at this time for items on today's agenda.

DETERMINATION OF EXEMPT BUSINESS

3. The Committee was asked to determine any exempt or confidential business.

The Committee resolved:-

To note there was no exempt business.

MINUTE OF PREVIOUS MEETING – 21 November 2017

4. The Committee had before it the minute of the previous meeting of 21 November 2017.

In reference to item 4, the Clerk highlighted that the meeting on 17 April would now take place on 10 April; and the meeting on 20 November would now take place on 13 November. He confirmed that fresh appointments had been sent to members.

The Committee resolved:-

- (i) to approve the minute as a correct record; and
- (ii) otherwise note the information provided.

STRATEGIC RISK REGISTER REVIEW

5. The Committee had before it the Strategic Risk Register.

Alex Stephen (Chief Finance Officer, ACHSCP) advised that since the Committee's last meeting, the Partnership had reduced the risk rating for risk 8 (Reputational Damage to the IJB) from High to Medium risk due to governance processes that had been in place and tested since the go live date; and the budget processes that had been put into effect to secure approval of the IJB's second annual budget. He also informed the Committee that progress had been made in the negotiation of the National Care Home Contract in which rates were expected to increase by 3.39%.

Thereafter the Committee reviewed the risk register and the following points were highlighted:-

With reference to risk 2 (Financial Failure), members agreed that financial failure needed to be defined and requested that the Executive Team review the Partnership's risk appetite for tolerating budgetary overspends. The Committee also

requested that reference be made to the Medium-Term Financial Strategy within the mitigation section;

With reference to risk 3 (IJB Failure to Function), members requested that the risk narrative be updated to reflect the announced departure of the current Chief Officer;

With reference to risk 4 (Hosted Services Failure), members expressed concern that Pan-Grampian meetings between IJBs were not happening regularly to resolve hosted service issues and there were gaps in assurance particularly for mental health services and prescribing. The Committee requested that the Executive Team review this risk and add the development of the Regional Delivery Plan to the mitigation section;

With reference to risk 6 (Failure of ACC and NHSG Corporate Services to Deliver IJB Services), members requested that the impact of budget reductions on both partners be added to the risk narrative;

With reference to risk 7 (Performance Failure), members noted that the mitigation and assurance sections appeared to be reactive and requested that the Executive Team review these sections to develop more proactive measures. The Committee also highlighted that the Partnership must not lose sight of person centred care whilst devoting efforts to meeting performance targets;

With reference to risk 8 (Reputational Damage to IJB), members discussed the possible impact of negative social media comments and campaigns on the IJB/ Partnership's reputation; and the Committee requested that the Executive Team review the wording of the risk description to reflect the complexity of decision making and the importance of quick and decisive responses;

With reference to risk 9 (Transformation Failure), members queried if the Partnership had been devoting sufficient time to supporting managers who were delivering transformational change at an operational level. Tom Cowan (Head of Operations, ACHSCP) confirmed that significant support was being provided on an ongoing basis and in response the Committee requested that this engagement with local managers be reflected within the risk narrative;

With reference to risk 10 (Failure to Maximise Locality Working Opportunities), members discussed the confusion caused by the statutory use of "Locality" terminology by both the IJB and Community Planning Aberdeen (CPA), particularly as their boundaries did not align. The Committee noted this was a risk to effective locality planning and requested the Chief Officer to discuss this risk with CPA partners; and

With reference to risk 11 (Workforce Planning Failure), members acknowledged that this was becoming a more prominent risk for the Partnership and discussed the likely impact of the National Health and Social Care Workforce Plan. The Committee requested that the Executive Team closely monitor this risk and consider a possible revision to its risk rating.

The Committee resolved:-

- (i) with reference to risk 2, to request that the Executive Team review the Partnership's risk appetite for tolerating budgetary overspends;

- (ii) with reference to risk 2, to make reference to the Medium-Term Financial Strategy within the mitigation section;
- (iii) with reference to risk 3, to make reference to the announced departure of the Chief Officer within the risk narrative;
- (iv) with reference to risk 4, to request that the Executive Team review this risk and add the development of the Regional Delivery Plan to the mitigation section;
- (v) with reference to risk 6, to include the impact of budget reductions on both partners within the risk narrative;
- (vi) with reference to risk 7, to request that the Executive Team review the mitigation and assurance sections and develop more proactive measures;
- (vii) with reference to risk 8, to request the Executive Team to review the wording of the risk description to reflect the complexity of decision making and the importance of quick and decisive responses;
- (viii) with reference to risk 8, to revise the colour of the risk movement on page 30 from green to amber to reflect the medium risk rating;
- (ix) with reference to risk 9, to request that the engagement and support provided to local managers with regards to the Transformation Programme be reflected within the risk narrative;
- (x) with reference to risk 10, to request that the Chief Officer discuss the use of “Locality” terminology with CPA partners and to highlight the confusion it had caused for stakeholders and the public;
- (xi) with reference to risk 11, to request that the Executive Team closely monitor this risk and consider a possible revision to its risk rating;
- (xii) to recommend that the Strategic Risk Register be added to the IJB agenda on 27 March 2018 for further review;
- (xiii) to request that a session on risk management and risk appetite be delivered at the IJB’s developmental workshop on 24 April 2018; and
- (xiv) otherwise note the risk register.

PERFORMANCE MONITORING

6. The Committee had before it a report by Jillian Evans (Head of Health Intelligence, NHS Grampian) and Alison MacLeod (Lead Strategy and Performance Manager, ACHSCP) which (1) outlined the most current data in respect of Aberdeen City Health and Social Care Partnership’s (ACHSCP’s) performance against the National Core Suite of Integration Indicators; (2) detailed progress against other high level IJB performance measures; and (3) demonstrated continued alignment of performance with the Aberdeen City HSCP Strategic Plan 2016 – 2019.

The report recommended:-

That the Committee -

- (a) Note the performance and progress of the partnership against the high level indicators of system-wide performance; and
- (b) Note that the Head of Strategy and Transformation will report performance quarterly over the year; bi-annually to the IJB and bi-annually to the Audit and Performance Systems Committee.

Alison MacLeod (Lead Strategy and Performance Manager, ACHSCP) provided an overview of the Partnership’s performance against the national core suite of integration indicators and local indicators. She advised that performance across the board was mixed and highlighted that colleagues in Health Intelligence and the newly

formed Performance Management and Evaluation Group would review performance indicators and systems to ensure they could provide relevant, up to date and robust information to support decision making. Ms MacLeod also confirmed that the Head of Strategy and Transformation would review the formatting of the Performance Monitoring report within the next Committee cycle.

Thereafter there were questions and comments on (1) the number of national indicators in which Partnership performance was below the national average and whether this was due to local slippage or relative national improvement; (2) the importance for the Performance Management Framework to link back to the outcomes within the Strategic Plan; and (3) Ms MacLeod confirmed that the Performance Management and Evaluation Group had liaised with Health Improvement Scotland to learn from best practice and improve their methodology.

The Committee resolved:-

- (i) to note the performance and progress of the partnership against the high level indicators of system-wide performance;
- (ii) to note that the Head of Strategy and Transformation would report performance quarterly over the year; bi-annually to the IJB and bi-annually to the Audit and Performance Systems Committee;
- (iii) to instruct the Lead Strategy and Performance Manager to circulate an update to members via email on whether the Partnership's declining performance against a number of national integration indicators on page 47 was due to local slippage or a relative improvement in national performance; and
- (iv) to instruct the Head of Strategy and Transformation to review the formatting of the Performance Monitoring report in consultation with the Chairperson to ensure performance reporting links back to the Strategic Plan.

FINANCIAL CONTROL

7. The Committee had before it a report by Gillian Parkin (Finance, NHS Grampian) and Jimmie Dickie (Finance, ACC) which (1) summarised the current year revenue budget performance for the services within the remit of the Integration Joint Board as at Period 9 (end of December 2017); (2) advised on areas of risk and management action relating to the revenue budget performance of the Integration Joint Board (IJB) services; and (3) outlined any budget virements required to ensure budgets were more closely aligned to anticipated income and expenditure

The report recommended:-

That the Committee –

- (a) Note the report in relation to the IJB budget and the information on areas of risk contained herein; and
- (b) Note the budget virements indicated in Appendix E.

Alex Stephen (Chief Finance Officer) advised that an adverse position of £3.36m had been recorded as at 31 December 2017. He explained that the main areas of pressure were overspends on prescribing; out of area treatments; and hosted services.

Thereafter there were questions and comments on the £102,000 overspend on the Police Forensic Service budget, which the Chief Finance Officer confirmed had been due to structural and legacy underfunding issues.

The Committee resolved:-

- (i) to note the report in relation to the IJB budget and the information on areas of risk contained therein;
- (ii) to note the budget virements indicated in Appendix E; and
- (iii) to instruct the Chief Finance Officer to review the formatting of the Financial Control report in consultation with the Chairperson.

ADULT SOCIAL WORK INTERNAL AUDIT REPORT

8. The Committee had before it a report by David Hughes (Chief Internal Auditor) which presented the outcome from the planned audit of Adult Social Work Transport that was included in the 2017/18 Internal Audit Plan for Aberdeen City Council. The Internal Audit report was considered by the Aberdeen City Council Audit, Risk and Scrutiny Committee in November 2017.

The report recommended:-

That the Committee review, discuss and comment on the issues raised within the report.

Colin Harvey provided an overview of the audit which found that in general the Partnership had appropriate arrangements in place to secure transportation in a cost effective and well managed way. He highlighted that Internal Audit had made a number of recommendations for Management's consideration relating to (1) the introduction of service level agreements; (2) the Partnership's Data Protection Policy, particularly in relation to processing consent forms; (3) Care First's processing and storage of data; (4) the use of Public Contracts Scotland (PCS) digital functionality; and (5) securing delegated authority for approval of contracts in excess of £60,000.

Thereafter there were questions and comments on (1) the ongoing review of Care First; (2) preparations for ensuring General Data Protection Regulation (GDPR) compliance by 25 May 2018; and (3) the process Internal Audit would adopt to monitor whether Management had actioned audit recommendations.

The Committee resolved:-

- (i) to note that the Committee would receive an annual report from Internal Audit on any recommendations which had not been accepted or actioned by Management; and
- (ii) otherwise note the report.

TRANSFORMATION INTERNAL AUDIT REPORT

9. The Committee had before it a report by David Hughes (Chief Internal Auditor) which presented the outcome from the planned audit of Transformational Funding that was included in the 2017/18 Internal Audit Plan for the Integration Joint Board.

The report recommended:-

That the Committee review, discuss and comment on the issues raised within the report.

Colin Harvey advised that Internal Audit had found that governance protocols were now more mature but generally the itinerary of the Transformation Programme was still being developed. Gail Woodcock (Lead Transformation Manager, ACHSCP) accepted the findings of the audit and advised that Management would accept all recommendations put forward by Internal Audit. She also confirmed that the Strategic Commissioning Programme Board had held its first meeting in January 2018.

The Committee resolved:-

To note the report.

DRAFT EXTERNAL AUDIT STRATEGY

10. The Committee had before it a cover report by Alex Stephen (Chief Finance Officer, ACHSCP) which introduced the draft External Audit Strategy which had been prepared by the Partnership's external auditors KPMG.

The report recommended:-

That the Committee approve the approach to external audit, as outlined in Appendix A.

Natalie Dyce (External Audit) provided an overview of (1) the audit approach; (2) the audit risk; (3) materiality; (4) the financial statement audit; and (5) the wider scope of the audit in relation to the four dimensions of financial sustainability, financial management, governance and transparency and value for money. She also highlighted the auditor's responsibility for quality and independence. The Chief Finance Officer confirmed that Management had endorsed the draft Strategy and intended to submit the annual accounts and annual Governance Statement to the same meeting of this Committee later in the year.

Thereafter there were questions and comments on (1) the impact of Aberdeen City Council's bond issue on the publication of the Partnership's annual accounts; and (2) the cost of audit fees, with particular reference to pool costs and contribution to Public Audit and Best Value (PABV).

The Committee resolved:-

To agree the recommendation.

TRANSFORMATION PROGRESS

11. The Committee had before it a report by Gail Woodcock (Lead Transformation Manager, ACHSCP) which provided an update on the progress of the Transformation Programme.

The report recommended:-

That the Committee note the information within the report.

Gail Woodcock provided an overview of project progress within the Transformation Programme and highlighted the governance structures and links to the Strategic Plan which underpinned the Programme. Ms Woodcock noted that to date £2.78m had been spent on transformation projects against a projected spend of £4.09m for the full financial year. She explained the underspend was largely due to processing of

invoices and that expenditure would be reported in future updates to Committee. Ms Woodcock then undertook a high level deep dive of the Acute Care at Home and Modernising Primary and Community Care workstreams.

Thereafter there were questions and comments on (1) workforce planning, with particular reference to potential gaps that may develop as staff are relocated to support transformation projects; (2) the Partnership's increasing use of digital solutions to support a more efficient way of working; and (3) initiatives planned by the Partnership to encourage registered nurses who were not currently employed in this sector or had retired, to return to this profession.

The Committee resolved:-

- (i) to note the report; and
- (ii) to request that the next update on Transformation Progress be reported to Committee in a similar fashion to today's meeting and include both a summary report and deep dive presentation.

RHONA ATKINSON, Chairperson.



Audit and Performance Systems Committee

Report Title	Local Code of Corporate Governance.
Lead Officer	Alex Stephen, Chief Finance Officer,
Report Author (Job Title, Organisation)	Alex Stephen, Chief Finance Officer
Report Number	HSCP/18/002
Date of Report	13.03.18
Date of Meeting	10.04.18

1: Purpose of the Report

To review the local code of corporate governance for the Integration Joint Board (IJB) agreed by Audit & Performance Systems on 11 April 2017 and allow the Audit & Performance Systems (APS) committee to comment on the sources of assurances used to measure the effectiveness of the governance principles contained in the CIPFA\SOLACE¹ *'Delivering Good Governance in Local Government: Framework'* document.

2: Summary of Key Information

The IJB is responsible for ensuring that its business is conducted in accordance with the law appropriate to standings, safeguarding public funds and asset and making arrangements to ensure best value. In order to demonstrate this, an annual governance statement is produced each year and included within the annual accounts document. The IJB is required to review the effectiveness of the control environment annually and this also features in the annual governance statement.

In April 2016 CIPFA\SOLACE published a report titled *'Delivering Good Governance in Local Government: Framework'*. The objective of the Framework is to help local government in taking responsibility for developing and shaping an informed approach to governance, aiming at achieving the highest standards in a measured and proportionate way.

¹ CIPFA – Chartered Institute of Public Finance and Accounting
SOLACE – Society of Local Authority Chief Executives



Audit and Performance Systems Committee

Whilst the document is written in a local authority context, most of the principles are applicable to the IJB, particularly as the legislation recognises the partnership (IJB) body as a local government body, under Part VII of the Local Government (Scotland) Act 1973, and therefore subject to the local authority accounting code of practice. Aberdeen City Council has also adopted a new local code of corporate governance based on this framework and many of the assurances will be contained in the same documents.

At the APS Committee on the 11 April 2017 a local code of corporate governance was approved based on this Framework and this forms the basis of the annual governance statement.

A review has been undertaken of the sources of assurance and the changes are highlighted in italics in appendix 1 of this report. Many of the assurances come from documents which belong to NHS Grampian and Aberdeen City Council. This is appropriate given the partnership model for IJBs where the decisions made by the IJB are required to be actioned using processes of the partner organisations.

An annual review will be required to be undertaken to assess IJB performance against these principles. This will identify any weaknesses and improvement actions required.

3: Equalities, Financial, Workforce and Other Implications

There are no equalities, financial or workforce recommendations arising directly from this report

4: Management of Risk

Identified risk(s):

Good governance and internal controls are fundamental to the delivery of the strategic plan and therefore applicable to most of the risks within the strategic risk register.

Link to risk number on strategic or operational risk register: Risk numbers 1-10 of the strategic risk register.

How might the content of this report impact or mitigate the known risks: This



Audit and Performance Systems Committee

report outlines the assurances for the effectiveness of the governance principles, as set out in the CIPFA/SOLACE document.

5: Recommendations

It is recommended that the Audit & Performance Systems Committee:

1. Approve the use of the sources of assurance, listed in appendix 1, and review the local code of governance.



Audit and Performance Systems Committee

Appendix 1

GOVERNANCE PRINCIPLES		
Principle A Behaving with integrity, demonstrating strong commitment to ethical values and representing the rule of law.	Sub-Principles <ul style="list-style-type: none"> Behaving with integrity. Demonstrating strong commitment to ethical values Respecting the rule of law. 	
Sources of Assurance		
IJB	ACC	NHSG
<ul style="list-style-type: none"> Code of conduct Financial regulations Integration scheme Standing orders IJB staff induction Board Assurance Framework <i>'imatters'</i> survey 	<ul style="list-style-type: none"> Employee Code of Conduct Performance review and development – core management behaviours and 360 assessments Employee Opinion survey action plan 	<ul style="list-style-type: none"> NHSG schedule of reserved decisions NHSG standing financial instructions Imatters survey NHS Scotland Staff Experience Review



Audit and Performance Systems Committee

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| <ul style="list-style-type: none">• <i>Dignity at work survey</i>• <i>Complaints Handling Procedure</i>• <i>Role and responsibilities protocol for Chief Officer and Chief Finance Officer</i>• <i>From the Ground Up leadership programme for third and fourth tiers</i>• <i>Formal Directions Procedure</i> | <ul style="list-style-type: none">• Scheme of Governance – Officer and Committee Delegations• Standing Orders• Financial Regulations• Statutory Officers and Statutory Appointments• Complaints Handling Procedure• Staff and Manager Induction• Engagement through third tier managers and below | <ul style="list-style-type: none">• NHSG employee conduct policy• NHSG Board Members Code of Conduct• EKSF processes/objective setting• Standing orders• NHSG Feedback Service• NHSG induction process• HR policies (including health promotion) |
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Audit and Performance Systems Committee

Principle B Ensuring openness and comprehensive stakeholder engagement.		Sub-principles <ul style="list-style-type: none"> • Openness. • Engaging comprehensively with institutional stakeholders. 	
Sources of Assurance			
IJB	ACC	NHSG	
<ul style="list-style-type: none"> • IJB Strategic Plan • Broad range of stakeholders on the IJB itself. • Representatives from 3rd and independent sectors in key working groups. • Joint communications and engagement group. • OurIDEAS innovation platform • <i>Complaints Handling Procedure and freedom of information compliance</i> • <i>'imatters' team action plans</i> • <i>Communications protocol</i> 	<ul style="list-style-type: none"> • Local Outcome Improvement Plan and locality plans • Publishing council decisions • Employee opinion survey action plan • Complaints handling procedure • Community Planning Partnership • Freedom of information compliance 	<ul style="list-style-type: none"> • NHSG Feedback Service • Freedom of information compliance • NHSG Local Delivery Plan 	



Audit and Performance Systems Committee

Principle C Defining outcomes in terms of sustainable economic, social and environmental benefits		Sub-principles <ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits. 	
Sources of Assurance			
IJB	ACC	NHSG	
<ul style="list-style-type: none"> Strategic plan Performance framework Local outcome improvement plans Locality plans <i>Medium Term Financial Strategy</i> <i>Transformation Plan</i> <i>Climate change duties report</i> 	<ul style="list-style-type: none"> Strategic business plan, directorate plans, service plans and staff plans, demonstrating evidence of the golden thread Performance management framework Consistent improvement methodology Local outcome improvement plan and locality plans Best value/value for money 	<ul style="list-style-type: none"> NHSG Local Delivery Plan Performance management framework 	



Audit and Performance Systems Committee

Principle D Determining the interventions necessary to optimise the achievement of intended outcomes.		Sub-principles <ul style="list-style-type: none"> • Determining interventions. • Planning interventions. • Optimising achievement of intended outcomes. 	
Sources of Assurance			
IJB	ACC	NHSG	
<ul style="list-style-type: none"> • Effective and embedded risk management system • Effective and embedded budget monitoring and financial planning • Third party governance and assurance • Performance management framework • Health & safety arrangements • Information governance assurance framework • Business continuity plans 	<ul style="list-style-type: none"> • Effective and embedded risk management system • Effective and embedded budget monitoring and financial planning • Annual reviews of Committees' effectiveness • Third party governance and assurance • Performance management framework • Local resilience partnership • Health & safety assurance 	<ul style="list-style-type: none"> • Effective and embedded risk management systems • Effective and embedded budget monitoring and financial planning • Performance management • NHSG Health & Safety Committee • NHSG caldicott guardian • NHSG annual accountability review 	



Audit and Performance Systems Committee

<ul style="list-style-type: none">• Civil contingencies group and plan	framework <ul style="list-style-type: none">• Information governance assurance framework• Business continuity plans	
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Audit and Performance Systems Committee

<p>Principle E</p> <p>Developing the entity’s capacity, including the capability of its leadership and the individuals within it.</p>		<p>Sub-Principles</p> <ul style="list-style-type: none"> • Developing the entity’s capacity. • Developing the capability of the entity’s leadership and other individuals. 	
<p>Sources of Assurance</p>			
<p>IJB</p>		<p>ACC</p>	
<ul style="list-style-type: none"> • Staff induction • Organisational Development Plan • Workforce plan • <i>Role and responsibilities protocol for Chief Officer and Chief Finance Officer</i> • <i>From the Ground Up leadership programme for third and fourth tiers</i> 		<ul style="list-style-type: none"> • Elected member induction and professional development framework • Staff and manager induction • Scheme of governance – Officer and Committee delegations • Governance training programme • Staff and manager 	
		<p>NHSG</p>	
		<ul style="list-style-type: none"> • Staff induction • North East leadership schemes • NHS HR policies • Staff partnership representation 	



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<ul style="list-style-type: none">• <i>IJB Induction</i>	<p>development programme</p> <ul style="list-style-type: none">• Corporate policies framework• Third Tier Network• Member/Officer relations protocol• Workforce plan• Investors in People• Living Wage Employer	
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<p>Principle F</p> <p>Managing risk and performance through robust internal control and strong public financial management.</p>		<p>Sub-principles</p> <ul style="list-style-type: none"> • Managing risk. • Managing performance. • Managing data. • Strong public financial management. 	
<p>Sources of Assurance</p>			
<p>IJB</p>		<p>ACC</p>	
<ul style="list-style-type: none"> • Financial regulations • Performance management framework • Effective and embedded budget monitoring and financial management • Risk appetite statement • Internal and external audit plans • Third party governance and assurance 		<ul style="list-style-type: none"> • Financial regulations • Following the public pound guidance • Performance management framework • Effective and embedded budget monitoring and financial management • Assurance mapping • Risk appetite statement • Risk management action plan 	
		<p>NHSG</p>	
		<ul style="list-style-type: none"> • NHSG schedule of reserved decisions • NHSG standing financial instructions • Performance management framework • Effective and embedded budget monitoring and financial management • Risk registers • Internal and external audit plan 	



Audit and Performance Systems Committee

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Integration scheme • Annual review of Audit and Performance Systems committee effectiveness • Data protection compliance • Business continuity plans for critical functions • <i>Medium Term Financial Strategy</i> | <ul style="list-style-type: none"> • Bond governance plan • Internal and external audit plans • Fraud, Bribery and corruption strategy • Third party governance and assurance • Scheme of governance – Officer and Committee delegations • Procurement regulations, training and development • Annual review of Audit, Risk & Scrutiny committee effectiveness • Information governance assurance framework • Data protection compliance • CIPFA/ALARM risk benchmarking • Statutory Performance reporting • Project management protocols • Business continuity plans for critical functions • Resilience self-assessment framework | <ul style="list-style-type: none"> • Information governance • NHSG Policy for Fraud Prevention • NHSG Risk Management Policy & Strategy |
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Principle G Implementing good practices in transparency, reporting, and audit to deliver effective accountability.		Sub-principles <ul style="list-style-type: none"> • Implementing good practice in transparency. • Implementing good practices in reporting. • Assurance and effective accountability. 	
Sources of Assurance			
IJB	ACC	NHSG	
<ul style="list-style-type: none"> • Committee reporting framework • Financial reporting – annual financial statements and accounts, annual budget • Financial plans reporting to committees • Internal and external audit plans • Third party governance • <i>Medium Term Financial Strategy</i> 	<ul style="list-style-type: none"> • Committee reporting framework • Financial reporting – annual financial statements and accounts, annual budget • Medium and long term financial plans and quarterly reporting to committees • Internal and external audit plans • Third party governance • Local government 	<ul style="list-style-type: none"> • Financial reporting – annual financial statements and accounts, annual budget • Internal and external audit plans 	



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<ul style="list-style-type: none">• <i>MSG Performance Indicators</i>• <i>Performance Management Framework</i>• <i>Complaints handling procedure</i>	<p>benchmarking framework</p> <ul style="list-style-type: none">• Complaints handling procedure• Best value/value for money• Project management protocols	
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Audit and Performance Systems Committee

Report Title	Review of Financial Governance Arrangements
Lead Officer	Alex Stephen, Chief Finance Officer
Report Author (Job Title, Organisation)	Alex Stephen, Chief Finance Officer
Report Number	HSCP.18.003
Date of Report	13.03.2018
Date of Meeting	10.04.2018

1: Purpose of the Report

To provide the Audit & Performance Systems (APS) Committee with the results of the review undertaken by the Executive Team against financial governance requirements contained in the Chartered Institute of Public Finance and Accountancy (CIPFA)'s statement on the 'Role of the Chief Financial Officer in Local Government (2016)'.

2: Summary of Key Information

During the audit of the Integration Joint Board's (IJB) 2015/16 annual accounts, Audit Scotland, the IJB's external auditors at that time, requested that during the first full year of operation a review be undertaken to ensure compliance with the financial governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). This request formed part of the 2015/16 annual governance statement which is contained in the annual accounts document.

On 11 May 2017 the APS Committee reviewed and noted performance against the financial governance requirements. Contained in this review were some areas where further work was required or being progressed. The document contained in Appendix 1 contains the result of the first review, with any updates from the most recent executive team review highlighted in italics.

A copy of the document 'the role of the CIPFA Statement on the chief financial



Audit and Performance Systems Committee

officer in local government' is contained in appendix 2 of this report. Given the document is largely for local government, some of the terminology and principles are not directly relevant in an IJB context.

The financial control environment of the IJB is complex, with several of the controls remaining with the partner organisations (NHS Grampian and Aberdeen City Council). However, a review has been undertaken and assurance has been provided against each of the principles. In relation to some of the principles, further development work is required and this work is largely already in process.

3: Equalities, Financial, Workforce and Other Implications

There are no equalities, financial or workforce recommendations arising directly from this report.

4: Management of Risk

Identified risk(s):

Good governance and internal controls are fundamental to the delivery of the strategic plan and therefore applicable to most of the risks within the strategic risk register.

Link to risk number on strategic or operational risk register: Risk numbers 1-10 of the strategic risk register.

How might the content of this report impact or mitigate the known risks:

This report provides assurance and evidence on the financial governance requirements as contained the CIPFA statement.

5: Recommendations

It is recommended that the Audit & Performance Systems committee:

1. Note the content of the report and comment on the accompanying results of the Executive team review contained in Appendix 1.



Audit and Performance Systems Committee

Appendix 1

Principle 1

The Chief Financial Officer in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority’s strategic objectives sustainably and in the public interest.

Requirement	Statement	Evidenced by
Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.	<p>The IJB Executive Team:</p> <ul style="list-style-type: none"> has a clear statement of its respective roles and responsibilities. 	<ul style="list-style-type: none"> Job Descriptions of the IJB Executive Team Members. IJB Executive Team Structure. IJB Executive Team Minutes.
Ensure the CFO reports directly to Chief Executive and is a member of the leadership team with at least equal status to other members.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> is a member of the IJB Executive Team and an advisor to the Integration Joint Board the two leadership forums. reports directly to the Chief Officer with a 	<ul style="list-style-type: none"> IJB Executive Team Structure. IJB Executive Team Minutes. IJB minutes and reports.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by
	status at least equivalent to the other Executive Team members.	
<p>Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board and these should be reviewed.</p>	<p>The IJB:</p> <ul style="list-style-type: none"> • Is governed by its standing orders and the integration scheme. • Terms of Reference have been agreed and reviewed for both sub committees. <p>NHS Grampian (NHSG) and Aberdeen City Council (ACC):</p> <ul style="list-style-type: none"> • Both have lists of powers reserved for officers and authorisation limits. 	<ul style="list-style-type: none"> • IJB Standing Orders/Integration Scheme. • Sub Committee Terms of Reference. • ACC and NHSG schemes of delegation. • IJB minutes and agendas. • <i>IJC Chief Officer and Chief Finance Officer - roles and responsibilities protocol</i> • <i>IJB Formal Directions Procedure</i> <p>Future Work:</p> <ul style="list-style-type: none"> • Review of officers' delegations and powers following first full year of operation. <i>Review of ACC officer delegations and roles and responsibilities of Chief Officer and Chief Finance Officer protocol now established.</i>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by
		<ul style="list-style-type: none"> Review being undertaken of standing orders and dispute procedures in integration scheme. <i>Review undertaken and new standing orders approved by the IJB in October 2018.</i> Further work being undertaken on format and procedures for issuing directions. <i>Procedures and format revised during 2017/18.</i>
<p>Ensure that the IJB's Governance arrangements allow the CFO to bring influence to bear on all material business decisions and has direct access to Chief Executive, other leadership team members, the audit committee and external audit</p>	<p>The IJB CFO:</p> <ul style="list-style-type: none"> is a member of the Executive Team and reports to the Chief Officer. is responsible for the coordination of reports for the Audit and Performance Systems Committee. is a non-voting member of the IJB. is the IJB contact for external audit matters. 	<ul style="list-style-type: none"> IJB Executive Team Structure. IJB Executive Team Minutes. AP&S Minutes. IJB minutes and reports.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by
<p>Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.</p>	<p>The IJB CFO:</p> <ul style="list-style-type: none"> • has management responsibility for business management, infrastructure and assets, communications, organisational development and is the IJB client manager for central support services. • feels these management responsibilities are led and managed by suitably qualified staff and the CFO does therefore not feel that these responsibilities compromise financial matters. 	<ul style="list-style-type: none"> • Senior Business Management Team Structure. • Senior Business Management Team Minutes and Agendas.
<p>Assess the financial skills required by the leadership team and commit to developing these skills to enable their roles to be carried out effectively.</p>	<p>The IJB CFO:</p> <ul style="list-style-type: none"> • is confident that the Executive Team members have the financial capabilities to perform their jobs effectively. 	<ul style="list-style-type: none"> • IJB Executive Team Minutes <p>Development Work:</p> <ul style="list-style-type: none"> • The CFO will develop and deliver financial training for IJB managers once the structure below the Executive Team has been recruited to. <i>IJB managers part of the process undertaken to develop the Medium Term Financial Strategy. Once budget</i>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by
		<i>split to locality level then further training will take place.</i>
<p>Review partnership arrangements to ensure the authority always has access to financial advice in relation to its role in partnership.</p>	<p>The IJB:</p> <ul style="list-style-type: none"> • has partnership relationships formally identified through the Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014. • has its own Chief Finance Officer to provide independent financial advice. • has agreed a budget protocol which establishes how future budgets should be agreed. • has developed and continues to develop relationships with care providers. • has a membership heavily influenced by its partners. • <i>contract management arrangements for Bon Accord Care.</i> <p>The IJB Chief Officer</p> <ul style="list-style-type: none"> • is a member of the NHS and ACC senior 	<ul style="list-style-type: none"> • Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014. • IJB Executive Team Structure. • Care provider forums. • IJB membership lists. • IJB Budget Protocol. • ACC corporate management team structure. • NHS Grampian Senior Leadership Team structure. • <i>BAC quarterly contract management meetings agendas and minutes.</i>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by
	leadership teams.	

Principle 2

The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

Requirement	Statement	Evidenced by:
Establish a medium term business and financial planning process to deliver the authority's strategic objectives.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> worked collaboratively with the senior officers to produce a balanced budget which allowed the services in the strategic plan to be delivered. <i>has led the development of IJB Medium Term Financial Strategy</i> 	<ul style="list-style-type: none"> <i>IJB Medium Term Financial Strategy</i> IJB Budget Protocol. Slides from IJB/Senior management finance workshops. IJB budget timetable. <i>Transformation plan</i>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
	<p>The IJB:</p> <ul style="list-style-type: none"> agreed a budget protocol. held budget workshops with IJB members. 	<p>Development Work:</p> <p>Budget process development to include more strategic focus, a stronger link to transformation plans and greater review of medium term financial position. – <i>Medium term financial strategy and transformation plan now agreed by the IJB.</i></p>
Ensure that these are subject to continuing review of the assumptions	<p>The IJB CFO:</p> <ul style="list-style-type: none"> reviews the budget assumptions through the budget monitoring process. 	<ul style="list-style-type: none"> Regular budget monitoring reports to the IJB
Ensure that professional advice on matters that have financial implications is available and recovered well in advance of decision making	<p>The IJB CFO:</p> <ul style="list-style-type: none"> reviews all IJB reports and signs these off from a financial perspective before publication. 	<ul style="list-style-type: none"> IJB reports and minutes



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
Ensure that budget calculations are robust and reserves adequate.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> developed a reserves strategy which was approved by the IJB. reviewed the reserve levels during the financial strategy work and requested the IJB ring fence funding as a 'risk reserve'. 	<ul style="list-style-type: none"> IJB reserve strategy. IJB minute approving reserve strategy. <i>IJB Medium Term Financial Strategy.</i>
Ensure those making decisions are provided with financial information which is relevant, timely and clear.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> reviews all IJB reports and signs these off from a financial perspective before publication. attends the IJB as a non-voting member and provides advice where and when appropriate. 	<ul style="list-style-type: none"> IJB reports and minutes. IJB Executive Team Reports and Minutes.
Ensure that the authority meets its policy and service objectives and provided effective stewardship of public money and value for money in its use.	<p>The IJB:</p> <ul style="list-style-type: none"> has agreed a performance management framework which is regularly reviewed by the IJB and at the APS Committee. approves spend and issues directions for procurement spend over £50,000. 	<ul style="list-style-type: none"> IJB reports and minutes. IJB integration scheme. IJB financial regulations ACC Procurement regulations. ACC financial regulations .



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
	<p>NHSG and ACC:</p> <ul style="list-style-type: none"> • have procurement and financial standing orders which demonstrate best value. 	<ul style="list-style-type: none"> • ACC delegated powers. • NHSG schedule of reserved decisions. • NHSG standing financial instructions. • <i>Formal Directions Procedures.</i> <p>Development Work:</p> <ul style="list-style-type: none"> • Process for issuing directions needs to be refined. <i>Procedures and new format implemented in 2017/18.</i>
<p>Ensure that authority maintains a prudential financial framework, keeps its commitment in balances with available resources, monitors income and expenditure levels and takes corrective action</p>	<p>The IJB CFO:</p> <ul style="list-style-type: none"> • reviews the budget assumptions through the budget monitoring process. <p>The Executive Team:</p> <ul style="list-style-type: none"> • review budget monitoring and where possible develop plans to rectify adverse 	<ul style="list-style-type: none"> • Regular budget monitoring reports to the IJB. • Executive Team – Agendas, Reports and Minutes.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
when necessary.	movements in the financial position.	
Ensure the authority understands the budgetary commitment of a contracted service including longer term financial implications.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> <i>prepared a Medium Term Financial Strategy for the IJB.</i> <p>The IJB:</p> <ul style="list-style-type: none"> is provided with the financial implications of decision in future years in its reports. 	<ul style="list-style-type: none"> Transformation Update reports. IJB reports – financial implications sections. <i>IJB Medium Term Financial Strategy</i>
Ensure advice is provided on reserve levels in line with good practice.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> developed a reserves strategy which was approved by the IJB. review the reserve levels during the financial strategy work and requested the IJB ring fence funding as a ‘risk reserve’. 	<ul style="list-style-type: none"> IJB reserve strategy. IJB minute approving reserve strategy. <i>IJB Medium Term Financial Strategy and covering report.</i>
Ensure compliance with CIPFA’s prudential code	The IJB has no responsibility for treasury management.	N/A.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
for capital finance in local authorities and CIPFA's Treasury Management in the Public Services Code of Practice.		
Ensure that appropriate management accounting systems, functions and controls are in place so finances are kept under review.	NHSG and ACC: <ul style="list-style-type: none"> provide the management accounting systems, functions and controls for the IJB. these systems are reviewed regularly by internal audit. 	<ul style="list-style-type: none"> Internal Audit Reports of ACC, NHSG and IJB. Internal Auditor's opinion on internal controls of ACC, NHSG and IJB.
Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget holders.	NHSG and ACC: <ul style="list-style-type: none"> Finance managers provide financial information and advice to budget holders on a regular basis. 	<ul style="list-style-type: none"> Budget monitoring reports and timetables for budget holders.
Ensure that medium-term business and financial planning systems along with ongoing performance monitoring cover the services provided through	The IJB: <ul style="list-style-type: none"> Received full details and approved the budget for Bon Accord Care (BAC). <i>has considered a report on BAC's Strategic Plan</i> 	<ul style="list-style-type: none"> IJB reports and minutes. <i>BAC quarterly contract monitoring meeting agendas and minutes.</i> Development Work: Collaborative



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Requirement	Statement	Evidenced by:
partnerships and alternative delivery models.	<ul style="list-style-type: none"><i>will received BAC's Annual Report</i>	contracts review of BAC is being developed, with representatives from BAC contracts, adult social care and finance. <i>Quarterly contract monitoring procedure now in place, reviewing performance, finance, complaints, inspections.</i>
Ensure that the prudential financial framework accurately reflects the commitments and potential future impact of contracted future services.	The IJB has no responsibility for treasury management.	N/A



Audit and Performance Systems Committee

Principle 3

The CFO in a local authority must lead the promotion and delivery by the whole authority for good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

Requirement	Statement	Evidenced By
Make the CFO responsible for ensuring appropriate advice is given on all financial matters, for keeping financial records and accounts, and maintaining an effective system of financial control.	<p>The IJB CFO:</p> <ul style="list-style-type: none"> has responsibility for these matter as indicated in the CFO job description. <p>The IJB:</p> <ul style="list-style-type: none"> needs to place assurance on ACC and NHS Grampian for some elements of the financial control system, which in turn are regularly reviewed by their internal audit functions. 	<ul style="list-style-type: none"> CFO Job description. ACC and NHS Grampian - annual accounts. Internal Audit's –Annual report and Statement on the internal control system – ACC, NHS Grampian and IJB.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
<p>Ensure that system and processes for financial administration, financial control and protection of the authority’s resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.</p>	<p>The IJB:</p> <ul style="list-style-type: none"> needs to place assurance on ACC and NHS Grampian for some elements of the financial control system, which in turn are regularly reviewed by their internal audit functions. 	<ul style="list-style-type: none"> ACC and NHS Grampian - annual accounts. Internal Audit’s –Annual report and Statement on the internal control system – ACC, NHS Grampian and IJB.
<p>Ensure that the authority puts in place effective internal financial controls. Ensuring that these controls are an integral part of the authority’s underlying framework of corporate governance and that they are reflected in its</p>	<p>The IJB:</p> <ul style="list-style-type: none"> needs to place assurance on ACC and NHS Grampian for some elements of the financial control system, which in turn are regularly reviewed by their internal audit functions. Through the AP&S committee, have developed a local code of corporate 	<ul style="list-style-type: none"> ACC and NHS Grampian - annual accounts. Internal Audit’s –Annual report and Statement on the internal control system – ACC, NHS Grampian and IJB. IJB local code of corporate governance.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
local code.	governance, in line with guidance from CIPFA/SOLACE.	
Address the authority's arrangements for financial and internal control and for managing risk in annual governance reports.	The IJB: <ul style="list-style-type: none"> has addressed these arrangements in the annual governance report and will continue to do so. 	<ul style="list-style-type: none"> The IJB accounts (annual governance statement).
Publish annual accounts on a timely basis to communicate the authority's activities and achievements, its financial position and performance.	The IJB: <ul style="list-style-type: none"> published its financial accounts on its website. provided members of the public the opportunity to inspect the accounts of the organisation in line with statutory process. 	<ul style="list-style-type: none"> Aberdeen City Health & Social Care Partnership website. Annual Accounts documents. Development Work: <ul style="list-style-type: none"> The management commentary of the accounts will provide details on performance. <i>2016/17 management commentary reviewed by external audit.</i>
Ensure an effective internal audit function is resourced and maintained.	The IJB: <ul style="list-style-type: none"> has appointed an internal auditor. 	<ul style="list-style-type: none"> Audit & Performance System agendas and minutes. IJB agenda and minutes.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
	<p>The APS Committee</p> <ul style="list-style-type: none"> has received the internal audit annual plan at the APS Committee. has reviewed internal audit reports. 	
Develop and maintain an effective audit committee.	<p>The IJB:</p> <ul style="list-style-type: none"> has established an audit committee. 	<ul style="list-style-type: none"> Audit & Performance System agendas and minutes. Audit & Performance Systems terms of reference. <p>Development Work:</p> <ul style="list-style-type: none"> Need to establish a framework to review effectiveness. <i>Work about to start with the Committee chair about the collation of an annual report for the APS Committee.</i>
Ensure that the authority makes best use of resources and that taxpayers and/or service users receive value for money.	<p>The NHS Grampian and ACC:</p> <ul style="list-style-type: none"> financial standing orders and procurement regulations which the IJB uses, which allows best value to be demonstrated. 	<ul style="list-style-type: none"> ACC Procurement regulations. ACC financial regulations. ACC delegated powers. NHSG schedule of reserved decisions. NHSG standing financial



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
		instructions.
Embed financial consequences in person specifications and appraisals.	<p>The NHS Grampian, ACC and IJB:</p> <ul style="list-style-type: none"> included financial responsibilities in job specifications where appropriate. 	<ul style="list-style-type: none"> Job Descriptions <p>Development Work: Review ACC/NHSGs' appraisal frameworks to determine whether finance is covered a separate topic. <i>Will require approval from the partners given they are still the employers.</i></p>
Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.	<p>The IJB:</p> <ul style="list-style-type: none"> Is currently relying on the financial skills, regulations and budget management training provided by ACC and NHS Grampian. 	<ul style="list-style-type: none"> ACC and NHS Grampian training records. <p>Development Work:</p> <ul style="list-style-type: none"> Once the localities are established and the structure becomes clearer a comprehensive financial training programme will be developed and delivered for those managers with budget responsibility. <i>The locality structures are currently in the process of being established.</i>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
<p>Ensure that councillors' roles and responsibilities for monitoring performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.</p>	<p>The IJB:</p> <ul style="list-style-type: none"> • had three financial workshops to discuss the budget. • has a development plan. • has inductions for new members. 	<ul style="list-style-type: none"> • Slides and invitations for budget workshops. • IJB development plan.
<p>Ensure ongoing monitoring of assurance arrangements in respect of partnerships and alternative delivery models and that appropriate access to information is maintained.</p>	<p>ACC:</p> <ul style="list-style-type: none"> • has implemented a governance hub which seeks to review the arrangements of alternative delivery models such as Bon Accord Care. <p>The IJB:</p> <ul style="list-style-type: none"> • has received the minutes of these meetings for information previously. 	<ul style="list-style-type: none"> • Governance Hub agendas and minutes. • IJB agendas and minutes.



Audit and Performance Systems Committee

Principle 4	
The CFO in a local authority must lead and direct a finance function that is resources to be fit for purpose.	

Requirement	Statement	Evidenced By
<p>Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.</p>	<p>The IJB:</p> <ul style="list-style-type: none"> • has established the role of CFO <p>ACC and NHS Grampian:</p> <ul style="list-style-type: none"> • provide the finance functions for the IJB. 	<ul style="list-style-type: none"> • IJB Executive Management Structure. • NHS Grampian and ACC Finance Structures. <p>Development Work:</p> <p>A review will be undertaken to establish if these arrangements are effective. <i>Over the last financial year it has become clear that the arrangements are effective and proportionate in the current environment.</i></p>



Audit and Performance Systems Committee

Requirement	Statement	Evidenced By
Ensure there is a line of professional accountability to the CFO for finance staff throughout the authority.	<p>The IJB:</p> <ul style="list-style-type: none">has established the role of CFO <p>AC and NHS Grampian:</p> <ul style="list-style-type: none">provide the finance functions for the IJB	<ul style="list-style-type: none">IJB Executive Management Structure.NHS Grampian and ACC Finance Structures. <p>Development Work: when the review of effectiveness is undertaken consideration will also be given to professional accountability. <i>Professional accountability for the finance teams continues to be maintained by the partner bodies. However, regular meetings with the finance staff have helped mitigate the lack of professional accountability.</i></p>



Audit and Performance Systems Committee

Principle 5

The CFO in a local authority must be professionally qualified and suitably experienced.

Requirement	Statement	Evidenced by:
<p>Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in the statement and ensure that these are properly understood throughout the authority.</p>	<p>The IJB</p> <ul style="list-style-type: none"> • has employed a professional accountant as CFO. • the CFO's job description sets out the core responsibilities which are similar to those outlines in the statement. 	<ul style="list-style-type: none"> • CFO's professional certificates. • CFO's job description.
<p>Ensure that the CFO has the skills, knowledge, experience and resource to</p>	<p>The IJB:</p> <ul style="list-style-type: none"> • undertook a comprehensive recruitment 	<ul style="list-style-type: none"> • CFO recruitment process. • CFO annual appraisal.



Audit and Performance Systems Committee

Requirement	Statement	Evidenced by:
perform effectively in both the financial and non-financial areas of their role.	<p>process to employ the CFO to make sure that the CFO has the necessary skills and experience.</p> <p>The IJB Chief Officer</p> <ul style="list-style-type: none">• performs the annual appraisal of the CFO which includes a section on future training requirements. <p>The IJB CFO</p> <ul style="list-style-type: none">• considers that sufficient resource is available to perform role effectively.	

the role of the chief financial officer

in Local Government

CIPFA Statement on the role of the Chief Financial Officer in Local Government

The chief financial officer (CFO) in a public service organisation:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the chief financial officer:

- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced.

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\ foreword

This Statement on the Role of the CFO in Local Government describes the role and responsibilities of CFOs in local government. It builds heavily on CIPFA's Statement on the Role of The CFO in Public Services¹ and applies the principles and roles set out in that document to Local Government.

The CFO occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. While the global financial crisis and economic downturn have made these tasks even more challenging, they have also underlined the fundamental importance of the role. Achieving value for money and securing stewardship are key components of the CFO's role

in public service organisations, a duty enshrined in legislation for the CFO in local government.

In order to support CFOs in the fulfilment of their duties and to ensure that local authorities have access to effective financial advice at the highest level, CIPFA is introducing a 'comply or explain' requirement in the annual statement of accounts.

Rob Whiteman

Chief Executive
CIPFA

¹ www.cipfa.org/policy-and-guidance/reports

definitions used throughout the document

The public services have a variety of organisational structures and governance arrangements. Some include elected representatives, while others are wholly appointed. The following terms are used throughout the Statement in a generic sense. The Statement and the supporting guideline and requirements need to be read in the context of these. Terms in use in different parts of the public services can be substituted for the generic terms used here.

Chief Financial Officer (CFO)

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

Deputy Finance Officer

Is the designated deputy finance officer for the chief finance officer.

Leadership Team

Comprises the Board and management team.

Board

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

Management Team

The group of executive staff comprising the senior management charged with the execution of strategy.

Chief Executive

The most senior executive role in the organisation.

Deputy CFO

The deputy supports the CEO and has delegated authority.

Managers

The staff responsible for the achievement of the organisation's purpose through services/businesses and delivery to its clients/customers.

Finance Function

The staff with a prime responsibility for financial matters, located either in a central department or within business/service areas. Some functions may be outsourced.

Governance²

The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner.

Financial Management³

The system by which the financial aspects of a public service organisation's business are directed, controlled and influenced, to support the delivery of the organisation's goals.

Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

² *The Good Governance Standard for Public Services 2004*, OPM and CIPFA, 2004 www.cipfa.org/policy-and-guidance/reports

³ *CIPFA FM Model*, www.cipfa.org/fmmodel

Internal Audit

An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives.

Head of Profession

The leading professionally qualified accountant charged with promoting professional standards within the organisation.

Annual Governance Report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Public Service Organisation

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned, and receive public and/or charitable funding.

introducing the CIPFA statement

This Statement on the role of the Chief Financial Officer (CFO) in Local Government aims to give detailed advice on how to apply the overarching public services Statement within local government.

The CFO in local government is not only bound by professional standards but also by specific legislative responsibilities. This statement should also be applied to those individuals who carry out the role of deputy CFO or section 151 officer. They must have regard to the fact that delegated responsibility brings with it all the professional standards and legal responsibilities of the CFO. The role and responsibilities of the 'treasurer' were developed by case law in England and Wales. In *Attorney General v De Winton* 1906, it was established that the treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.⁴

Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires local authorities to make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and for those arrangements to be carried out under the supervision the chief financial officer.

This Statement sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role. The Statement is not intended to be exhaustive and does not negate the personal responsibility of finance professionals to ensure that they comply with all professional standards and legislative requirements. It is intended to codify the key responsibilities of the CFO in local government and assist those carrying out that role in ensuring that they meet the key personal duties of the role. The Statement refers to CIPFA's Statement of Professional Practice with which all CIPFA members are required to comply. For members of other accountancy bodies this represents best practice within the public sector. All professional accountants should also have regard to their own body's Code of Ethics as well as that produced by International Ethics Standards Board for Accountants (IESBA) on behalf of the International Federation of Accountants (IFAC).

Contained with the appendices for completeness is a description of the legislative framework.

⁴ For the Greater London Authority and its four functional bodies (Transport for London, the London Development Agency, the Metropolitan Police Authority and London Fire and Emergency Planning Authority,) the chief finance officer is not a s151 officer but a s127 officer (GLA Act 1999). For the City of London the chief finance officer the 1989 Local Government and Housing Act that places the Chamberlain in the same relationship to the Court of Common Council as applies to local authority chief financial officers to their councils.

using the CIPFA statement

Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation
- the role
- the individual.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the CFO as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.

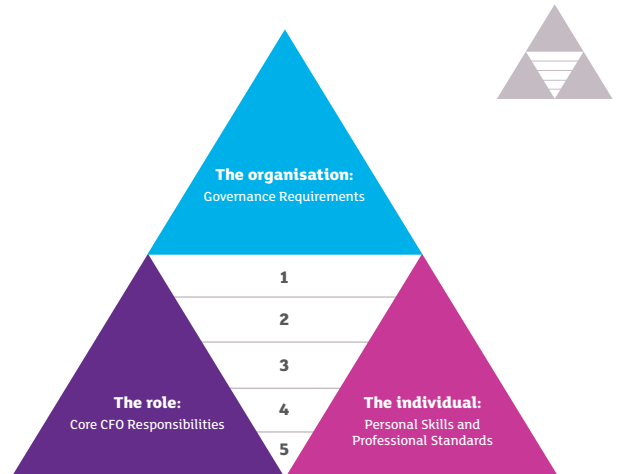
CIPFA Statement on the role of the chief financial officer (CFO) in public service organisations

The CFO in a public service organisation:

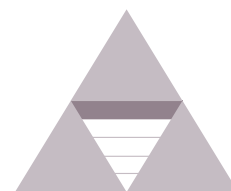
- 1 is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- 2 must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- 3 must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- 4 must lead and direct a finance function that is resourced to be fit for purpose
- 5 must be professionally qualified and suitably experienced.



\ principle 1



The chief financial officer in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

Key member of the leadership team

The leadership team in public services organisations takes many forms, with different mixes of executive and non-executive members and elected representatives. Collectively the leadership team are responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. In recognition of the centrality of financial issues to organisational success it is UK government policy that all government departments should have a professional CFO reporting directly to the permanent secretary with a seat on the departmental board, with a status equivalent to other Board members. HM Treasury recommends 'It is good practice for all other public sector organisations to do the same, and to operate the same standards'.⁵ CIPFA fully supports the Treasury's recommendation.

Local authorities operate a number of different democratic models. In local authorities, therefore, the concept of the leadership team will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. The CFO should play a key role within these leadership teams whilst balancing their responsibility to advise all members.

Local authorities are required to have a suitably qualified CFO with certain defined responsibilities and powers.⁶ The governance requirements in the Statement are that the CFO should be professionally qualified, report directly to the chief executive and be a member of the leadership team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's Annual Governance Report⁷, together with how these deliver the same impact.

Developing and implementing organisational strategy

All local authorities face competition for limited public funds and have to balance expenditure needs against the burden of local taxation. Many will have allocated cash limits, while others have tax raising powers. All will be concerned to examine opportunities, with suitable assessment of legal powers and risk, for building income streams, whether through attracting external grants, charging for services, or commercial activity. Strategic planning needs to be based on an understanding of the external political landscape, the authority's demand and cost drivers, and the need to manage and fund longer term commitments on a sustainable basis. Increasingly local authorities are working with statutory and in partnership, requiring strategy and development across a number of different partners. Local authorities strategic planning frameworks need to allow for this.

Finance translates ambitions and goals across the authority into a common language, so the CFO must share in the strategy development and implementation responsibilities of the leadership team. These include supporting elected representatives under the proper governance arrangements and the CFO must be in a position to provide unfettered advice to elected representatives to inform their decision making.

The CFO must also ensure the members of the leadership team have the financial capabilities necessary to perform their own roles effectively. There is a duty on the leadership team to ensure the decisions framework is sufficient to allow this, e.g. LEP and partnership decisions. The CFO must encourage continuous improvement and development to enable the authority to deliver at the highest levels. As well as having the fundamental concern for probity and control,

⁵ HM Treasury 'Managing Public Money' Annex 4.1. 2007

⁶ The officer appointed as the CFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.

⁷ The Annual Governance Statement is currently voluntary in Scotland.

the CFO must be proactive in managing change and risk, be focussed on outcomes, and help to resource the authority's plans for change and development in the public services it provides. As a key member of the leadership team, the CFO must also behave in ways that are consistent with the authority's agreed values, objectives and appetite for risk.

Helping resource and deliver organisational objectives

There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, authorities must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the CFO can result in poor financial outcomes for the authority. Setting out the core CFO responsibilities in this Statement is intended to allow local authorities and their CFOs to assess their job descriptions to ensure that their core finance responsibilities can be properly performed.

Local authorities also need to engage with partners through a range of collaborative or commissioned relationships in order to realise their goals. Partnership working and the focus on community outcomes mean that the CFO needs to understand the financial risks and potential liabilities that may impact on the authority and have appropriate involvement in partnerships' business decisions. The CFO must therefore work to develop strong and constructive working relationships with key decision makers in partner organisations. Where the CFO is providing advice to partner bodies and organisations it remains the CFO's responsibility to ensure that where actual or potential conflicts of interest may occur, the local authority has access to appropriate financial advice independent of that partnership.

Delivering the authority's strategic objectives sustainably and in the public interest

Local authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short-, medium- and longer-term. Maximising public value involves an appreciation of user needs, expectations and preferences, and the planning process must allow for their involvement and influence. The internal process to determine priorities often then needs to grapple with service rationing and difficult trade-offs between different groups of service users, as well as between present and future benefits. The overarching long-term need to match financial resources to the authority's purposes and policies, within constraints of affordability, taken

with the responsibility to citizens and taxpayers for financial stewardship, mean that the CFO must contribute actively to cross organisational issues and to corporate decision making to match resources to the authority's objectives.

Public finance is complex and highly regulated, and the CFO must contribute expert technical advice and interpretation. CFOs must act in the public interest, even if necessary against a perceived organisational interest. In some types of public service organisation, including local authorities, this professional obligation is given statutory backing, and a fiduciary duty is established in case law. In *Attorney General v De Winton* 1906, it was established that the treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. This remains applicable to the CFO.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its CFO".

The CFO's duties in England and Wales were significantly extended by section 114 of the 1988 Act which requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer (MO) and head of paid service, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

As holders of the 'red card', the CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health. To ensure that the necessary corrective action is implemented, the CFO must have direct access to the chief executive, other leadership team members, the audit committee and also to external audit.



Governance requirements

Principle 1

- Set out a clear statement of the respective roles and responsibilities of the leadership team and its members individually.
- Ensure that the CFO reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.
- If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.
- Ensure that authority's governance arrangements allow the CFO:
 - to bring influence to bear on all material business decisions
 - direct access to the chief executive, other leadership team members, the audit committee and external audit.
- Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.
- Assess the financial skills required by members of the leadership team and commit to develop those skills to enable their roles to be carried out effectively.
- Review partnership arrangements to ensure that the authority always has access to financial advice in relations to its role in partnership.



Core CFO responsibilities

Principle 1

- Contributing to the effective leadership of the authority, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the authority, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the authority through development of
 - corporate governance arrangements, risk management and reporting framework⁸
 - corporate decision making arrangements.
- Contributing to the development of public service partnership to deliver objectives.
- Leading or promoting change programmes within the authority.
- Leading development of a medium-term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

⁸ CIPFA LAAP 99 Bulletin on Local Authority Reserves



Personal skills and professional standards

Principle 1

- Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.
- Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Build robust relationships both internally and externally.
- Work effectively with other leadership team members with political awareness and sensitivity.
- Support collective ownership of strategy, risks and delivery.
- Address and deal effectively with difficult situations.
- Demonstrate best practice in change management and leadership.
- Balance conflicting pressures and needs, including short- and longer- term trade-offs.
- Facilitate the growth of effective partnerships whilst balancing the need to protect the individual financial position.
- Demonstrate strong commitment to innovation and performance improvement.
- Manage a broad portfolio of services to meet the needs of diverse communities.
- Facilitate the growth of effective partnership enabling improved service delivery.
- Maintain an appropriate balance between the technical financial aspects of the CFO role and broader focus on the environment and stakeholder expectations and needs.
- Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by virtue of their professional status as a member of CIPFA or another accountancy institute. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.

\ principle 2



The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

Responsibility for financial strategy

No organisation can achieve its goals effectively without proper structures for allocating and optimising the use of resources. The centrality of finance means the CFO must play the lead role in advising and supporting the leadership team in turning policy aspirations into reality by aligning financial planning with the vision and strategic objectives for the authority.

Within the overall corporate governance and management structure, the CFO has direct responsibility for leading development and implementation of the financial strategy necessary to deliver the authority's strategic objectives sustainably. The CFO must therefore work closely with decision makers to establish a medium- to long-term strategy that ensures the financial sustainability of the authority. This may require the CFO to provide comprehensive advice on alternative delivery models to inform debate.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and appropriately addressed. Models must encompass partnership working, alternative delivery models, capital investment programmes and annual operations, as well as financial targets and benchmarks. They must also take into account future commitments, resources available and the desirable levels of reserves, to ensure that the authority's finances remain sustainable.

The statutory guidance issued by the Secretary of State under the 2000 Local Government Act (England and Wales) advises that local authorities will need to ensure that the CFO and the monitoring officer have

access as necessary to meetings and papers and that members must consult with him/her regularly.¹⁰ The advice continues that the finance director will have an important role in the management of the local authority in particular by:

- contributing to corporate management in particular to the provision of professional financial advice
- maintaining financial administration and stewardship
- supporting and advising all members and officers in their respective roles
- examining alternative delivery models and supporting members in their understanding of each approach
- providing financial information to the media, members of the public and the community.

There is no equivalent legislative requirement in Scotland or Northern Ireland, but the guidance is equally relevant.

Influencing decision making

Local authorities must be rigorous in their decision making, be explicit about the reasons for their decisions and record the supporting information and expected impact. This requires the CFO to be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken.

The CFO must be able to advise the leadership team directly, including elected representatives, in order to discharge responsibilities in relation to the authority's financial health and long-term viability. The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others,

¹⁰ In Wales the statutory guidance does not include this reference but implies that this should be the case.

and influence material business decisions. The CFO's advice and reports to the leadership team must be clear, concise, relevant and timely, highlighting issues that the team needs to be aware of, and options for action.

The CFO must also work to develop strong and constructive working relationships with both the executive and non executive members of the authority's leadership, creating mutual respect and effective communication. Providing information and advice to elected officials as a public servant will call on an understanding of ethics, the wider public interest, and diplomacy.

The Local Government Act 2003 and Local Government Scotland Act 2003 emphasise the importance of sound and effective financial management. In relation to capital financing there is a statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. Advice on fulfilling this responsibility is set out in CIPFA's Prudential Code.¹¹

In England and Wales there is also a statutory duty on the CFO to report to the authority, at the time the budget is considered and the council tax set, on the robustness of the budget estimates and the adequacy of financial reserves. This is a public report. In addition, the Secretary of State in England or the National Assembly for Wales have reserve powers to specify in regulations a statutory minimum level of reserves that will be used if authorities fail to remedy deficiencies or run down reserves against the advice of the CFO. There is no equivalent specific legislation in Scotland or Northern Ireland.

The CFO also has a key role to play in fulfilling the requirements of the statutory duty to keep the authority's finances under review during the year and take action if there is evidence that financial pressures will result in a budget overspend or if there is a shortfall in income.¹²

Financial information for decision makers

At all levels in the authority those taking decisions must be presented with relevant, objective and reliable financial analysis and advice, clearly setting out the financial implications and risks.

The CFO has an important role in ensuring necessary financial information and advice is provided to the leadership team and decision makers at all levels across the authority. Meaningful financial analysis and

robust and impartial interpretation is a key component in performance management, asset management, investment appraisal, risk management and control.

Although not a specific responsibility of CFOs alone, they – along with the monitoring officer and chief legal officer (CLO) – should be alert to the 'Wednesbury' rules¹⁴ which emphasise the importance of ensuring that when developing policy all relevant matters are properly considered. The judgement in the case stated that an authority's action in exercise of a statutory discretion would only be regarded unreasonable, in excess of the powers given by Parliament and therefore invalid if:

- in making its decision it took into account matters which it ought not to take into account, or
- it did not take into account matters which it should have taken into account, or
- even if the two previous conditions were satisfied the conclusion was so unreasonable that no reasonable authority could ever come to it.

These principles apply regardless of whether decisions on policy are taken by individual members or collectively. In order to demonstrate that these principles have been observed it is important that policy decisions and the associated advice are – as a matter of routine – well and clearly documented. The 'Wednesbury' rules do not apply specifically in Scotland or Northern Ireland, but adherence to these will demonstrate good governance and proper decision making.

¹¹ The Prudential Code for Capital Finance in Local Authorities, CIPFA www.cipfa.org/publications

¹² Associated Provincial Picture Houses v Wednesbury Corporation (1948).



Governance requirements

Principle 2

- Establish a medium-term business and financial planning process to deliver the authority's strategic objectives, including:
 - a medium-term financial strategy to ensure sustainable finances
 - a robust annual budget process that ensures financial balance
 - a monitoring process that enables this to be delivered.
- Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used.
- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance.
- Ensure that those making decisions are provided with information that is fit for purpose – relevant, timely and giving clear explanations of financial issues and their implications.
- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.
- Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary.
- Ensure the authority understands the budgetary commitment of a contracted service including the longer term financial implications.
- Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance¹³
- Ensure compliance with CIPFA's *Prudential Code for Capital Finance in Local Authorities* and CIPFA's *Treasury Management in the Public Services Code of Practice*.
- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnerships arrangements, outsourcing or where the authority is acting in an enabling role.
- Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority.
- Ensure that medium-term business and financial planning systems along with ongoing performance monitoring cover the services provided through partnerships and alternative delivery models
- Ensure that the prudential financial framework accurately reflects the commitments and potential future impact of contracted future services

¹³ LAAP 99 – Local Authority Reserves and Balances, www.cipfa.org.uk/pt/download/laap77.pdf

**Responsibility for financial strategy**

- Agreeing the financial framework and planning delivery against the defined strategic and operational criteria.
- Maintaining a long-term financial strategy to underpin the authority's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Evaluating the financial implications of alternative delivery models.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Developing an approach for the delivery of collaborative services within a structured framework.
- Leading on asset and balance sheet management to allow the authority to maximise its effective use of resources.
- Co-ordinating the planning and budgeting processes.
- Involvement in strategic assets management.

Influencing decision making

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.
- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.
- Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.
- Ensuring that the authority's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

Financial information for decision makers

- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.
- Monitoring the service impact of 3rd party contacts on the delivery of organisational objectives.
- Monitoring the longer-term financial impact of 3rd party contracts.



Personal skills and professional standards

Principle 2

- Take all reasonable steps to ensure that:
 - budgets are planned as an integral part of the strategic and operational management of the authority and are aligned with its structure of managerial responsibilities
 - budgets are constructed on the basis of reliable data of past performance and rigorous assessments of future resources and commitments, and that policies and priorities are evaluated in an open, consistent and thorough manner
 - responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs
 - the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
- Implement other appropriate management, business and strategic planning techniques.
- Link financial strategy and overall strategy.
- Demonstrate a willingness to take and stick to difficult decisions – even under pressure.
- Take ownership of relevant financial and business risks.
- Network effectively within the authority to ensure awareness of all material business decisions to which CFO input may be necessary.
- Role model persuasive and concise communication with a wide range of audiences internally and externally.
- Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.
- Apply relevant statutory, regulatory and professional standards both personal and organisational.
- Demonstrate a strong desire to innovate and add value.
- Challenge effectively, and give and receive constructive feedback.
- Operate with sensitivity in a political environment.

\ principle 3



The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

Promotion and delivery of good financial management

Good financial management is fundamental to establishing confidence in the public services and good relationships with the taxpayer and other funders. The leadership team collectively needs to set the tone that financial management is core to achieving strategic aims, and to demonstrate that public money is used well. Nevertheless it is the CFO who must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The CFO will be instrumental in assessing the existing organisational style of financial management and the improvements needed to ensure it aligns with the authority's strategic direction.

Financial management is the business of the whole authority. When the leadership team, managers and the finance function all fulfil their financial management responsibilities successfully, they collectively create the financially literate and adept authority. The CFO must actively promote financial literacy throughout the authority and in partnership bodies so that the leadership team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

Best value and value for money

The CFO has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the local authority.

With the foundations in place, good financial management will focus on stretching limited resources to maximise value for the public service. Value for money (economy, efficiency and effectiveness) should be the concern of all managers, but the CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. This will involve approaches and techniques such as:

- enabling the authority to measure value for money, and making sure that it has the information to review value for money and performance effectively
- advising on appropriate strategies for managing assets and stretching utilisation, and the productive use of other resources
- providing leadership in using and developing efficiency tools and techniques, including benchmarking, IT, shared services, process analysis and cost management, collaborating with others where this is more efficient, effective or economical
- ensuring the rigorous financial appraisal and oversight of change programmes, partnership working, income generation proposals and investment projects.

Safeguarding public money

The CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources. At the most fundamental level this means ensuring robust systems of risk management and internal control, that financial control is exercised consistently, and that the authority implements appropriate measures to protect

its assets from fraud and loss and to identify and meet the assurance needed.

Where services are provided by partnership and 3rd party arrangements the CFO must ensure the mechanics and assurance mechanics are in place and compliance is monitored.

The CFO also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial accountabilities and reporting. In addition to the finance director's responsibilities to the authority, a wider role also exists in relation to the general public. The local authority is regarded as the trustee of local citizens' money, and the finance director has the prime obligation and duty to them to manage the authority's resources prudently on their behalf as established in the 1906 de Winton case.

In effect this means that the finance director has a personal responsibility for the stewardship and safeguarding of public money and for demonstrating that high standards of probity exist. Strong financial management, accurate financial reporting and effective financial controls are therefore central to the finance director's role in local government. This role was strengthened by the Local Government Finance Act 1988 (in England and Wales), which requires the finance director to report inappropriate financial management as well as wrongdoing.

Section 114 of the 1988 Act requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972. Further guidance recommending courses of action to be followed when a report under s114 may be required is attached at appendix B to this Statement. Although

section 114 does not apply to Scotland or Northern Ireland the principles that underlie it and the actions proposed in appendix B are recommended to finance directors as a means of discharging their overall responsibility for sound financial management.

Consistency of standards and transparency in financial activities are essential. In this context, CIPFA's view is that the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest. As a minimum the CFO would exercise this through ongoing monitoring and obtaining rights of access to information in order to ensure financial probity. CFO's must be satisfied that what ever is being monitored is needed and the information available

The CFO should oversee the appropriate arrangements with respect to service contracts and alternative delivery models.

Assurance and scrutiny

Accountability for public expenditure is a core requirement for local authorities. They are held accountable by intermediary stakeholders, such as scrutiny groups, service inspectorates and external auditors, and by primary stakeholders: the citizens, service users, funders and taxpayers.

Managing information flows is a key component of the CFO's role as an ambassador for the authority on financial matters and in building relationships with stakeholders. The CFO must also provide information and advice to those who officially scrutinise and review the authority; funders, regulators, and external audit, and any group which exercises scrutiny internally. The community, taxpayers and the press also expect information.

Internal audit is an important independent internal scrutiny activity. Internal audits remit does not necessarily end within the organisation boundary but can extend to a partnership and alternative delivery model. The CFO must support the authority's internal audit arrangements and ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

Public service providers face a variety of regulatory requirements and standards for external financial reporting, while measures of value are expressed both as financial and as non-financial performance targets. The role of the CFO in external reporting is to meet the reporting requirements relevant to the authority and to apply professional good practice, conscious of the needs of users. External financial reporting must be of good quality, supported by analysis and documentation and should receive an unqualified audit opinion. This will be facilitated if the CFO maintains a constructive professional relationship with external auditors and inspectors.

The Accounts and Audit Regulations 2003 (England and Wales), in Scotland, the Local Authority Accounts (Scotland) Regulations 1985 and in Northern Ireland the Local Government (Account and Audit) regulations (Northern Ireland) 2006 impose responsibilities on the finance director relating to accounting records and supporting information, control systems and the statement of accounts.

A key feature of the Regulations in England and Wales is the requirement for internal audit. Regulation 6 requires that a 'relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control'. Similar references exist for Northern Ireland in regulation 3a of the Local Government (Account and Audit) regulations (Northern Ireland) 2006. Although there is no specific reference to internal audit for Scotland the successful discharge of the finance director's responsibilities depends in part on effective internal audit.



Governance requirements

Principle 3

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Ensure that the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes. Ensuring that these controls are an integral part of the authority's underlying framework of corporate governance and that they are reflected in its local code.
- Address the authority's arrangements for financial and internal control and for managing risk in Annual Governance Reports.
- Publish annual accounts on a timely basis to communicate the authority's activities and achievements, its financial position and performance.
- Ensure an effective internal audit function is resourced and maintained.
- Develop and maintain an effective audit committee.
- Ensure that the authority makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.
- Ensure that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.
- Ensure ongoing monitoring of assurance arrangements in respect of partnerships and alternative service delivery models and that appropriate access to information is maintained.

**Promotion of financial management**

- Assessing the authority's financial management style and the improvements needed to ensure it aligns with the authority's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Actively promote good financial management throughout all partnerships and alternative delivery models.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.
- Ensure effective monitoring of partnerships through monitoring and access to information.

Value for money

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function or being clear on the reasons for alternative selection.
- Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.
- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long-term commercial contract value.

Safeguarding public money

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.¹⁴
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.

¹⁴ CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom* developed by the CIPFA/LASAAC Joint Committee
www.cipfa.org/publications



Core CFO responsibilities

Principle 3

- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.
- Be alert to potential conflicts of interest and ensure the authority has access to appropriate independent advice.

Assurance and scrutiny

- Reporting performance of both the authority and its partnerships to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, service plans, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the audit committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.
- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.
- Certifying the annual statement of accounts.
- Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes
- Liaising with the external auditor.



Personal skills and professional standards

Principle 3

- CFOs should take all reasonable steps to ensure that:
 - effective systems and procedures operate to monitor progress against budgets and their objectives at regular intervals, and that appropriate reporting mechanisms are in place
 - payments, including benefits and taxation, are made on time, accurately and in accordance with legal requirements
 - cash is handled with special care to avoid loss, particularly loss through theft and secure arrangements are in place to deal with the handling of electronic or other cash-less transactions
 - the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the authority's financial transactions
 - all financial reports are relevant, reliable and consistent, are compatible with the authority's accounting and financial information systems available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority
 - within the specific legislative framework for each authority, systems exist to secure the efficient and effective management of taxes, in particular to ensure that tax liabilities and obligations are properly reported and accounted for and to prevent any tax losses
 - treasury management is carried out in accordance with CIPFA's treasury management code and that effective treasury management arrangements are in place.
- Generate 'buy-in' to, and support delivery of, good financial management across the authority.
- Develop and sustain partnerships, and engage effectively in collaboration.
- Deploy effective facilitation and meeting skills.
- Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.
- Place stewardship and probity as the bedrock for management of the authority's finances.

\ principle 4



The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.

Meeting the finance needs of the business

The organisation of finance functions is changing rapidly. Traditionally they have been centralised services, but increasingly they include devolved finance teams in business areas. Arrangements may also now include outsourced functions, or services shared between organisations.

Whatever the structure, a strong customer focus both externally and internally must be a key feature of the way the finance function does business. It must support the authority's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

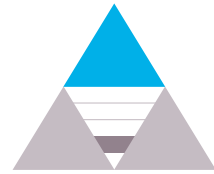
The finance function must also have a firm grasp of the authority's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and challenge those responsible for the authority's activities to account for their financial performance. The resources available must be proportionate to the complexity of the financial environment.

Section 114(7) of the Local Government Finance Act 1988 requires authorities in England and Wales to provide their CFO with 'such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section (i.e. s114) to be performed'. There is no equivalent requirement in Scotland or Northern Ireland.

Appropriately developed finance skills

The CFO must promote financial literacy throughout the authority, including championing training and development of relevant skills at all levels. However the CFO has a particular responsibility for learning and development amongst finance staff in order to ensure that both current and likely future finance skill needs are addressed. This will include identifying the competencies needed by the finance function, including specialist skills, and ensuring it can access the skills and experience to exercise stewardship of public finances, develop financial performance and contribute effectively to new organisational directions and innovation.

The CFO must ensure that the head of profession role for accountants and finance specialists authority-wide is properly discharged in order to ensure compliance with regulatory and professional standards. Exercising leadership on financial matters in a devolved environment will require a documented line of professional accountability to the CFO, where this is not a direct line management relationship.



Governance requirements

Principle 4

- Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure there is a line of professional accountability to the CFO for finance staff throughout the authority.



Core CFO responsibilities

Principle 4

- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Managing partnership delivery.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Ensuring that finance staff, managers and the leadership team are equipped with the financial competencies and expertise needed to manage the business both currently and in the future whether directly or indirectly employed.
- Ensuring that the head of profession role for all finance staff in the authority is properly discharged.
- Acting as the final arbiter on application of professional standards.



Personal skills and professional standards

Principle 4

- Create, communicate and implement a vision for the finance function.
- Role model a customer focussed culture within the finance function.
- Establish an open culture, built on effective coaching and a “no blame” approach.
- Promote effective communication within the finance department, across the broader authority and with external stakeholders.
- Apply strong project planning and process management skills.
- Set and monitor meaningful performance objectives for the finance team.
- Role model effective staff performance management.
- Coach and support staff in both technical and personal development.
- Promote high standards of ethical behaviour, probity, integrity and honesty.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the finance function.
- Promote discussion on current financial and professional issues and their implications.

\ principle 5



The CFO in a local authority must be professionally qualified and suitably experienced.

Demonstrating professional and interpersonal skills

The CFO must be able to demonstrate their own professional standing to exercise financial leadership throughout the authority. As a member of a professional body, the CFO's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function.¹⁵

The CFO must communicate complex financial information in a clear and credible way. They should be able to operate effectively in different modes including directing, influencing, evaluating and informing. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene with authority if financial or ethical principles need to be asserted or defended.

The officer appointed as the CFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body.¹⁶ There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.

The statutory role must be performed by an 'officer' of the authority. Although 'officer' is not defined the legal view is that the terms 'staff' and 'officer' in the Local Government Act 1972 and elsewhere are intended to embrace all employees of local authorities. It is permissible for an authority to procure non-statutory financial management services from an individual on the basis of a service contract.

Applying business and professional experience

The CFO must have an understanding and commitment to the wider business, looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders. In practice this means being creative and constructive in strategic roles and effective in management responsibilities, with a sound grasp of approaches such as performance management and project leadership.

The CFO must understand how and when to apply the tools and techniques of financial analysis in support of business decisions in order to evaluate proposals and to offer well founded and expert advice. Such techniques include strategic analysis, review of sector best practice, benchmarking, option appraisal, performance measurement, and risk assessment. However data is not always clear cut and the CFO must also be able to apply judgement to imperfect information.

The CFO must have a good understanding of public sector finance and its regulatory environment and comply with standards formulated through rigorous due process in support of the public interest to support the leadership team effectively. The CFO must also have a good understanding of the principles of financial management, and personally set a tone for the authority that finance matters and is a key part of everyone's job throughout the authority.

¹⁵ Further information on behaviours can be found in the *IFAC Code of Ethics*, www.ifac.org

¹⁶ Defined to mean a qualified member of one of the six bodies comprising the Consultative Committee of Accountancy Bodies (CCAB) in the UK and Ireland, that is

- Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants of Scotland
- The Institute of Chartered Accountants in Ireland
- Chartered Institute of Management Accountants
- The Association of Chartered Certified Accountants.



Governance requirements

Principle 5

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the authority.
- Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.



Personal skills and professional standards

Principle 5

- Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.
- Adhere to international standards set by IFAC on:
 - ethics
 - Continuing Professional Development.
- Demonstrate IT literacy.
- Have relevant prior experience of financial management in the public services or equivalent.
- Understand public service finance and its regulatory environment.
- Apply the principles of public financial management.
- Apply relevant commercial skills and understanding of relevant alternative delivery models
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

legislative requirements

Section 151 of the Local Government Act 1972 – England and Wales

This section requires that every local authority in England and Wales should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

The words “proper administration” are not statutorily defined nor have they received judicial consideration. Section 58 of the Local Government Act 1958 had somewhat narrower wording requiring authorities to make “safe and efficient” arrangements for the receipt and payment of money.

“Proper administration” requires a somewhat wider consideration of all aspects of local authority financial management and should include:

- compliance with the statutory requirements for accounting and internal audit
- ensuring the authority’s (and ultimately its members’) responsibility for securing proper administration of its financial affairs (Lloyd v McMahon (1982) AC 625)
- proper exercise of a wide range of delegated powers both formal and informal (Provident Mutual Life Assurance Association v Derby City Council (1981) 1 WCR 173)
- responsibility for managing the financial affairs of the local authority in all its dealings
- recognition of the fiduciary responsibility owed to local taxpayers (Attorney General v De Winton (1906) 2 CH 106).

This view is strengthened by Section 113 of the Local Government Finance Act 1988 which requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body.

Section 95 of the Local Government (Scotland) Act 1973 – Scotland

Section 95 states that: “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs”.

The same considerations as to the meaning of ‘proper administration’ as set out above apply in Scotland. There is no equivalent statutory requirement to Section 113, Local Government Finance Act 1988, requiring the CFO to be a member of a specified accountancy body, in Scotland although in both cases, this is widely acknowledged to be good practice.

Section 54 of the Local Government Act (Northern Ireland) 1972 – Northern Ireland

Section 54 requires that “council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its CFO”.

The Northern Ireland Act uses the more narrow wording previously used under the 1958 Local Government Act. There is no equivalent statutory requirement to Section 113, Local Government Finance Act 1988, requiring the CFO to be a member of a specified accountancy body, in Northern Ireland although in both cases, this is widely acknowledged to be good practice.

Section 114 of the Local Government Finance Act 1988 – England and Wales

The responsible officer under Section 151 of the 1972 Act had his or her duties significantly extended by Section 114 of the 1988 Act which requires a report to all the authority's members to be made by that officer, in consultation with the council's monitoring officer, if there is, or is likely to be unlawful expenditure or an unbalanced budget.

Introduction

Section 114 (1) of the Local Government Finance Act 1988 places a duty on the CFO to report certain matters to the authority. Serious consequences could follow making such a report and this note recommends sound procedures and consultation, particularly with the authority's CLO if that person is not the MO, prior to making the report.¹⁷

The duty of the CFO to report is triggered if they believe that a decision involves (or would involve) unlawful expenditure a course of action is unlawful and is likely to cause a loss or deficiency an entry of account is unlawful.

In those circumstances the CFO is required to make a report to the authority and send a copy to every member and the external auditor. The course of conduct which led to the report must not be pursued until the full council has considered the report. The council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take.

Likewise the CFO must inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the council has considered the report.

Regulations under the Local Government Act 2000 have amended section 114 for those authorities in England operating executive arrangements. In those cases such reports are submitted to full council in respect of non-executive functions and to the executive for executive functions.

If the unlawful expenditure relates to actions undertaken by the executive then under sections 114A and 115B, the CFO's report must be submitted to the executive. Copies

must be sent also to all members of the authority and the external auditor (and the council manager if there is one).

No action should be carried out until the executive has considered the report. The executive must then provide a report to the authority, the CFO and the external auditor, explaining what action, if any, is to be taken and the reasons.

This guidance note is intended to assist in the provision of sound legal (and financial) advice to members of the authority the duty to make a part VIII report rests with the CFO and nothing in this note derogates from that responsibility.

The legislation raises issues that could place the CFO in conflict with his or her employers. The consequences of submitting a part VIII report are unlikely to be in the long-term interests of the authority, its officers (or even local government generally) if many have to be made. The need to issue a number of s114 reports would also indicate that there are underlying problems with the overall performance of the authority. Every action should be taken to avoid conflict by providing timely advice to elected members and where possible offering alternative lawful solutions on financial matters. However, at the end of the day section 114 imposes a statutory duty on the CFO.

Preliminary matters

Information resulting in the need for a part VIII report could come from the CFO's staff, an officer, a member of the authority, the public or the auditor. All elected members and officers should be made aware that it is the CFO's duty to raise possible issues requiring investigation which may lead to a formal report. This could in part be achieved by including details of the CFO's statutory duty in the member/officers' protocol in the local authority's written constitution which must be prepared and maintained under section 37 of the 2000 Act. The topic should also be included in members' training programmes.

Making a report under sections 114 (2) and 114A(2) requires the CFO to make a decision that an act or omission is or could be unlawful; this decision should only be taken after full consultation with the head of paid service, the authority's MO (and chief legal officer where the CLO is not the MO) whereas a report

¹⁷ The statutory duty is to consult the head of paid service and MO.

under section 114 (3) requires a financial judgement on (essentially) the budget which the CFO could take alone. Even in a section 114(3) report the CFO is required by statute to consult the head of paid service (chief executive) and the MO because other corporate and legal issues may well flow from the report and because there may be overlaps with the MO's duty to report to the authority about unlawfulness under the Local Government and Housing Act 1989 section 5.

MOs have a reciprocal duty to issue reports under section 5 of the 1989 Act and to consult the head of paid service (chief executive) and CFO on their reports.

Circumstances of a developing situation (for example, shortage of budget resources or a prospective unlawful act) should be distinguished from the imminent or actual situation. Timing of a part VIII report will need careful thought and decision.

There may well be occasions when the chief executive, the MO, the CLO or the CFO will be asked for a view on matters which the authority has under consideration but which if developed might lead to a part VIII report. A mere preliminary enquiry or request should not lead to a formal report under the Act. If the situation develops the need to report must be reviewed.

It is not considered that the provisions of sections 114 (2) and 114A (2) relate to cases of discovered fraud (which could be the subject of criminal prosecution) – these should normally be dealt with under the authority's financial regulations.

A decision will be needed whether to report or not on items which could be regarded as outside sections 114 (2) and 114 A (2) such as trivial expenditure or loss of income although there may be circumstances in which such a report may be justified.

In the case of action under section 114 (3) the need for a report arises only where an authority's total resources fall short of likely expenditure. It does not apply where, say, a committee's budget is overspent – this might be the subject of a report outside the provisions of part VIII although this could in some circumstances amount to a loss or deficiency under section 114 (2) (b) or 114 A (2) (b).

This note assumes that within the authority the chief executive, MO/CLO and CFO are three separate posts. They may not always be so, although there is now a

statutory bar on the chief executive or CFO being the authority's MO. The authority's MO may also be the CLO. Where the roles are separate both should be consulted.

Recommended procedures

Having regard to the circumstances and the preliminary matters mentioned above the procedure for a report under section 114 (2) or 114 A (2) – an unlawful act or omission – is suggested as follows:

- Consult with the MO/CLO on the issue of unlawfulness.
- Consult the chief executive on the matter (s114(3A) and s114 A (3)).
- If there is disagreement or doubt the CFO should ask the MO/CLO to obtain Opinion of Counsel.
- If there is still disagreement after Counsel's Opinion, the CFO and MO/CLO refer the matter to the chief executive for assistance on procedures but chief executives should not substitute their own advice, even where legally or financially qualified.

Under section 114 (3) where the matter is an unbalanced budget – real or potential – the CFO is in a better position to come to a decision unaided. However it is recommended:

- an informal indication is given by the CFO at a very early stage and an attempt made to get immediate remedial action
- the likelihood of a report under section 114 (3) should be made known to the chief executive at an early opportunity
- the CFO should consider informal consultation with the internal and external auditor

At this point the CFO has to decide the course of action. If it is decided to proceed, the CFO goes to next stage.

Where the CFO decides there is a case for a part VIII report:

- If the action or expenditure is potential the CFO should draft a report stating the facts and reasons and discuss with the MO, the chief executive and relevant chief officers how to obviate the need for the report by remedial action. If successful the matter will rest.
- Where remedial action is not possible, or where the act or expenditure has already happened, the CFO should draft a report as in consultation with chief

executive and MO. The report should clearly state that it is made under the relevant sub-section of section 114 or section 114 (A) of the Local Government Finance Act 1988 and the consequences. The CFO then 'makes' the report by signing it personally.

The statutory duty to make a part VIII report and send a copy to each member of the authority and the external auditor rests on the CFO. The Act does not say when a report is to be sent but implies it should be sent as soon as reasonably practicable.

Where an authority in England or Wales is operating executive arrangements under the Local Government Act 2000 the report must be to the full council and sent to each member of the council and to the auditor, if it relates to non-executive functions or the likelihood of an unbalanced budget.

Where the local authority is operating executive arrangements, and the executive (or a person on their behalf) is about to make or has made a decision involving unlawful expenditure, a loss or deficiency or an unlawful item of account, the CFO must make the report to the executive, and send copies to every member, the auditor and (in the case of a mayor and council manager) the council manager.

The duty to make and send the report rests with the CFO and that starts the 21 day 'prohibition period' and in normal circumstances the timing of sending it needs to be carefully considered in consultation with the 'Proper Officer' for calling meetings (and the chief executive if not that officer).

Part VIII reports are likely to be made in highly contentious circumstances and as such could be the target for legal challenge. They must therefore be subject to most careful drafting, rehearsing all relevant matters and arguments besides clearly advising as to the options or decisions sought.

Whatever the decision, the CFO must have taken all steps necessary to arrive at and justify that decision. The CFO should ensure that there is a proper record of the considerations leading to the decision.

The executive must then meet within 21 days to consider the CFO's report and no action must be taken until this has happened. After considering the report, the executive must then prepare a report which specifies what action (if any) the executive has taken or proposes to take, the timing and the reasons for the action. A copy of that report must be sent to the external auditor, every member of the council and the CFO.

Liaison with proper officer responsible for calling meetings: (Schedule 12 Local Government Act 1972)

It is for the "proper officer" to advise on procedure for considering the report but by agreement such information could be included in the CFO's report or accompany it.

The report could be sent to each member of the authority as a separate document. However, in the case of reports to the full council it would be advisable to send copies with the council summons to the meeting which will consider it. In the case of reports to the executive, copies could be sent with the agenda for the meeting which will consider it, as well as the remaining members of the council and the council manager (if any). In both cases copies must be sent to the auditor.

The statutory duty to send the report is the CFO's but it is recommended that normally the authority's usual procedure for sending reports to all members be followed. However, proof the report was sent to individual addresses may subsequently be needed, so special arrangements for delivery may be required.

Other matters

Once the CFO has sent the report to each member of the authority (or to each member of the council, the executive and council manager (if any) where executive arrangements are operating) and to the external auditor, their reporting duty under part VIII has been completed.¹⁸ In the case of authorities with executive arrangements, the executive must then issue its report in response. The CFO, under their section 151 responsibilities may then have to advise full council on the outcome. If the authority (or the executive) acts positively on the s114 (114A) report, well and good; if

¹⁸ If inadequate action is agreed in response to a s114(3) report the CFO may need to consider whether or not a further report is required to address the situation. This should be decided in conjunction with the chief executive, MO and (if necessary) legal advice should be sought.

not, any further formal action is to be taken by the external auditor with the issuing of an 'advisory notice' under section 29 (schedule 8) of the Local Audit and Accountability Act (2014) or by applying to the court for a declaration under section 31 of the same Act.

The authority's standing orders and financial regulations should be compatible with the part VIII procedures.

In the light of these provisions it is clearly essential that all reports to committees or to the executive, an executive committee or an individual executive member containing financial matters should be cleared with the CFO. The CFO should also have access to all decision records, minutes and forward plans of executive key decisions.

The Local Government Finance Act, 1988, requires the authority to provide the CFO with sufficient resources to carry out their duties under part VIII. These would include the cost of obtaining advice and resources outside the authority if required.

The CFO's duties under part VIII must be carried out personally and it is recommended that they nominate a person to act in their absence or when ill under section 114(6).

The activities of companies set up by authorities appear to be outside the present legislation for section 114/114A reports.

Where a report has been made under section 114(3), arrangements need to be made to inform all persons, including school staff, who have delegated authority to enter commitments, that such powers are suspended during the prohibition period.

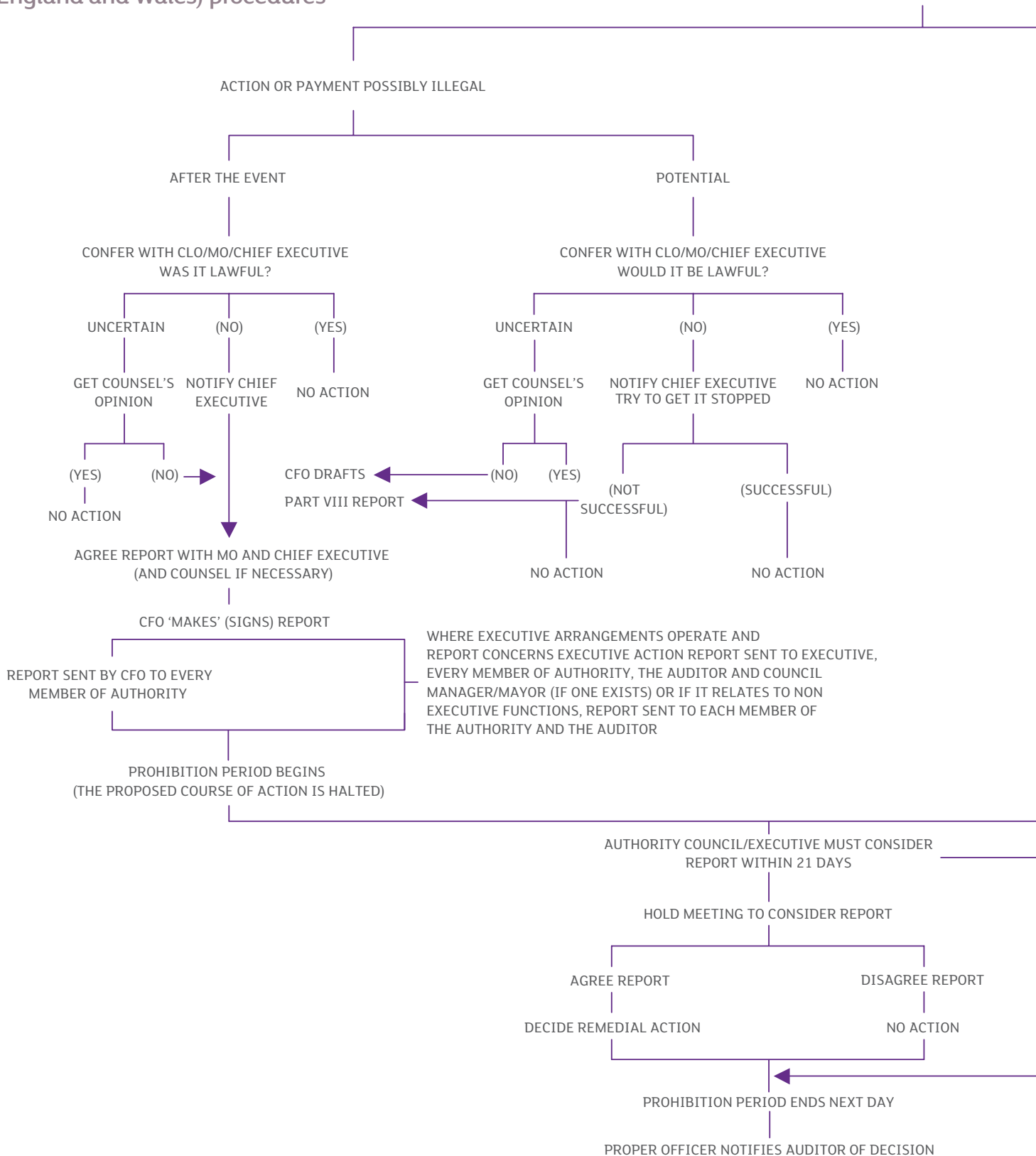
Section 114 equivalent in Scotland and Northern Ireland

Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

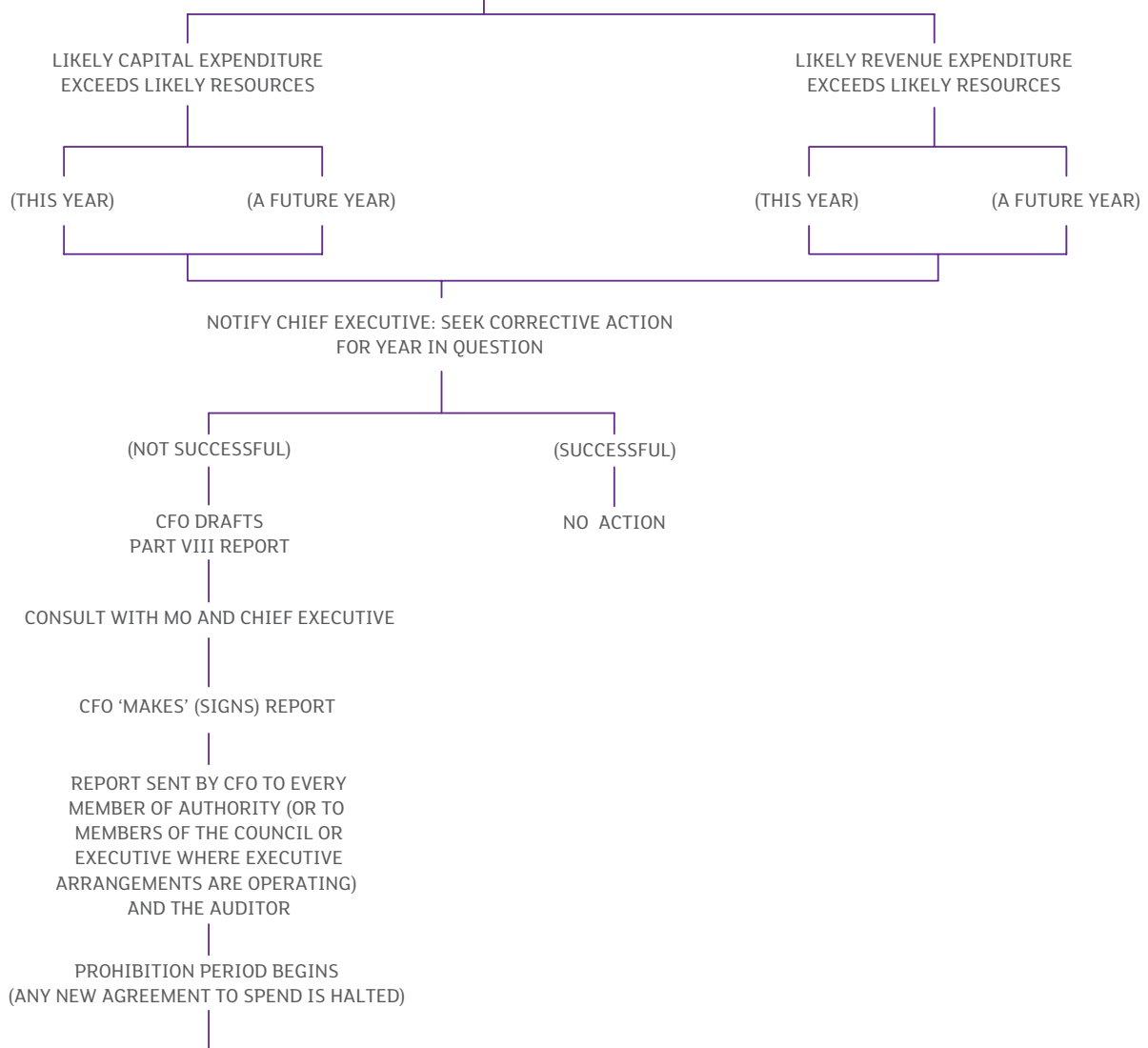
flowchart

for section 114 local government finance act 1988
(England and Wales) procedures

MATTER COMES TO THE ATTENTION OF



THE CFO



PROPER OFFICER NOTIFIES AUDITOR OF DATE TIME AND PLACE OF MEETING

WHERE EXECUTIVE ARRANGEMENTS OPERATE, EXECUTIVE MUST REPORT ON ACTIONS (IF ANY) TAKEN IN RESPONSE, TIMING AND REASONS TO THE AUTHORITY, CFO AND AUDITOR



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Audit and Performance Systems Committee

Report Title	Annual Governance Statement 2017/18
Lead Officer	Alex Stephen, Chief Finance Officer
Report Author (Job Title, Organisation)	Alex Stephen, Chief Finance Officer
Report Number	HSCP/18/001
Date of Report	13.03.18
Date of Meeting	10.04.18

1: Purpose of the Report
<ol style="list-style-type: none"> To provide the Audit & Performance Systems (APS) committee with the opportunity to provide comment on and approve in principle the annual governance statement. To agree that assurances on the government framework can be provided to Aberdeen City Council and NHS Grampian.

2: Summary of Key Information
<p>The annual governance statement forms a key part of the annual accounts and provides readers of the accounts with assurance that the governance framework is fit for purpose.</p> <p>The framework in an IJB context is complex, as although the IJB has its own governance framework, assurance is required that the partners' governance frameworks are also fit for purpose, given that the operational responsibility is maintained by the partner organisations.</p> <p>The IJB will be consolidated into the group accounts of Aberdeen City Council and NHS Grampian as a joint venture and they therefore require assurance that IJB's governance framework is fit for purpose.</p> <p>Therefore, a failure or weakness in either of the IJB, ACC or NHSGs' governance frameworks may require disclosure in the accounts of any of three partners depending on the severity.</p>



Audit and Performance Systems Committee

A draft annual governance statement is attached in appendix 1 of this report. The governance statement has been designed to provide assurance around compliance against the local code of corporate governance and the governance principles contained therein. The responses highlighted in yellow from Aberdeen City Council, NHS Grampian and the internal auditors related to the financial year 2016/17 are provided for illustrative purposes only.

The IJB is asked to agree appendix 1 in principle and instruct the chief finance officer to complete the governance statement once assurances have been received from Aberdeen City Council, NHS Grampian and the internal auditors for inclusion in the statement. If a significant weakness is identified from these parties then a meeting of the Audit & Performance Systems Committee will be called.

The Committee is also requested to instruct the Chief Finance Officer to provide assurances to Aberdeen City Council and NHS Grampian that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board's systems of governance.

The Executive Team has identified improvements to further strengthen the governance environment and these are identified in the governance statement.

3: Equalities, Financial, Workforce and Other Implications

There are no equalities, financial or workforce recommendations arising directly from this report

4: Management of Risk

Identified risk(s):

Good governance and internal controls are fundamental to the delivery of the strategic plan and therefore applicable to most of the risks within the strategic risk register.

Link to risk number on strategic or operational risk register: Risk numbers 1-10 of the strategic risk register.



Audit and Performance Systems Committee

How might the content of this report impact or mitigate the known risks: The Annual Governance Statement provides information on the effectiveness of the IJB Governance Framework.

5: Recommendations

It is recommended that the Audit & Performance Systems Committee:

1. Comment on the draft annual governance statement, as set out in appendix 1,

Additionally, on the proviso that no significant weaknesses impacting on the IJB's governance framework are identified in the assurances received by Aberdeen City Council, NHS Grampian and the IJB's Internal auditors:

2. Instruct the Chief Finance Officer to complete the governance statement and provide responses to Aberdeen City Council and NHS Grampian that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board's systems of governance.

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Draft Annual Governance Statement

Scope of Responsibility

The Integration Joint Board (“IJB”) is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, safeguarding public funds and assets and making arrangements to secure best value in their use.

In discharging this responsibility, the Chief Officer has put in place arrangements for governance which includes the system of internal control. This is designed to manage risk to a reasonable level, but cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable but not absolute assurance of effectiveness.

The IJB has a reliance on the Aberdeen City Council and NHS Grampian’s systems of internal control, which support compliance with both organisations’ policies and promotes achievement of each organisation’s aims and objectives, as well as those of the IJB.

The result of this is a situation where assurances are required on the effectiveness of the governance arrangements from the three partners. This means that a significant failure in the internal control environment of one of the three partners may require to be disclosed in the accounts of all three partners and not just the IJB and the partner where the issue occurred.

The Governance Framework

In this complex environment of circular assurances it is important that the IJB has its own local code of corporate governance and regularly reviews performance against the governance principles included within this code. The IJB has developed an Assurance Framework in conjunction with the Good Governance Institute which provides readers with an understanding of the governance framework and the assurances that can be obtained from it.

The IJB agreed on 11 April 2017 at the Audit & Performance Systems Committee to adopt a local code of corporate governance which was built around the principles identified in the ‘CIPFA\SOLACE¹ Delivering good governance in Local Government Framework (2016 Edition)’. This code provides a list of documents from an IJB, NHS Grampian and Aberdeen City Council perspective which provide assurance on the governance framework.

At the same meeting a review undertaken by the Chief Finance Officer evaluating the IJB’s governance environment against the governance principles detailed in the CIPFA document titled the ‘the role of the chief financial officer in local government’.

Whilst both these documents were specifically written for Local Government the governance principles can be used by other public sector organisations. Also, the IJB is defined as a local government organisation per the Local Government (Scotland) Act 1973 and Aberdeen City Council has also adopted the governance

¹ CIPFA - The Chartered Institute of Public Finance and Accountancy

SOLACE – The Society of Local Authority Chief Executives

principles from the delivering good governance document in its own local code of corporate governance.

Against each of the seven governance principles adopted by the IJB there are key documents, policies and arrangements which help address these. For the IJB some of these documents belong to NHS Grampian and Aberdeen City Council given their operational delivery role and the fact that the staff have remained employed by the partner bodies.

The seven governance principles identified in the local code of corporate governance and recommended in the CIPFA\SOLACE Framework are identified below, along with narratives evidencing compliance with the principles.

Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values and representing the rule of law,

Integrity: The following values of the IJB are indicated in the strategic plan:

- Caring
- Person Centred
- Enabling

These values form part of the decision making process of the IJB and are evident in the actions and decisions made by the Board. The IJB has appointed a Standards Officer who is responsible, amongst other things, for the maintaining of Registers of Interests, Registers of Gifts and Hospitality and training on the Model Code of Conduct for Members of Devolved Public Bodies.

Ethical Values: Over the course of this financial year the IJB has agreed in principle to adopt the Unison Ethical Care Charter and has provided funding to care providers to allow the Scottish Living Wage to be paid.

Rule of Law: A comprehensive consultation process has been developed with officers from Aberdeen City Council and NHS Grampian to ensure that decisions and reports comply with legislation. A member of the Council's Governance Team attends the IJB to ensure that decisions taken are in line with any legislative requirements. The IJB has appointed a Chief Finance Officer to ensure that the accounts and finances are in line with the statutory accounting environment. The IJB has standing orders and an integration scheme which provide information on where decisions can be made. Two sub committees have been created and each have their own terms of reference.

Improvement activities undertaken during the year: The standing orders of the IJB have been reviewed and updated. The integration scheme of the IJB has also been updated and approved by both NHS Grampian and Aberdeen City Council. The register of interests for IJB members has been updated by the IJB members and published online. The powers delegated to officers by Aberdeen City Council were updated and a role and responsibilities protocol has now been agreed by the IJB for the Chief Officer and Chief Finance Officer. An officer from the Council's Governance Team is now based in the IJB Management Office for at least one day a

week. The IJB's format for formal Directions has been updated to make reference to the strategic plan priorities. An induction process was undertaken for new IJB members.

Future Developments: The terms of reference for the two sub committees will be reviewed during the next financial year.

Principle 2 – Ensuring openness and comprehensive stakeholder engagement,

Openness: The IJB is a public board where members of the public can attend and agendas, reports and minutes are available to review. Therefore, members of the public can assess whether they believe that decisions are being taken in the public interest. The Audit & Performance Systems Committee is also a public meeting. The IJB has its own complaints handling procedure which complies with Scottish Public Services Ombudsman's guidance.

Stakeholder Engagement: The non-voting membership of the IJB is set out in the Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014. This comprises six professional members and a minimum of 4 stakeholder representatives for each of the following groups - staff, third sector bodies, service users and carers. The IJB agreed a budget protocol on the 7 March 2017 which sought to formalise stakeholder engagement with the partner organisations around the budget process. Care providers are very much thought of as a key part of the partnership and invited to the majority of the events the IJB hosts. The IJB has established the Aberdeen City Joint Staff Forum, which includes representation from the trade unions and the staff partnership, as a forum for workforce issues affecting social care and health staff.

Improvement activities undertaken during the year: A number of workshops have been held during the year, particularly around primary care and the transformation programme. A communications protocol documenting how the IJB will communicate with its stakeholder has been developed and approved by the IJB's Executive Team. A communication grid has also been established which shows when, where and what we plan to communicate throughout the year. The complaints handling procedure was agreed by Audit & Performance Systems Committee on 20 June 2017.

Future Developments: Implement the duty of candour guidance across the partnership.

Principle 3 – Defining outcomes in terms of sustainable economic, social and environmental benefits,

Economic: The IJB has agreed a Medium Term Financial Strategy which will be updated annually. The transformation programme and IJB report format specifically highlight the economic impact of the decisions being taken on current and future financial years. Work has been undertaken to establish the financial and operational benefits of the major transformation projects.

Social: The IJB has published a strategic plan which identifies outcomes and the direction of travel over the next few years. The majority of outcomes are closely linked to how social care and health services will be delivered and improved over the life of the strategic plan.

Environmental: A public bodies climate change duties report is collated and submitted annually on behalf of the IJB

Principle 4 - Determining the interventions necessary to optimise the achievement of intended outcomes,

Interventions: A transformation programme has been developed focussing on six big ticket items which will help support the delivery of the strategic plan. These six big ticket items are monitored on a regular basis and information on progress is received by the Integration Joint Board and the Audit & Performance Systems Committee for scrutiny and challenge. Decisions to procure services costing over £50,000 are taken by the Integration Joint Board in so far as it relates to a Direction made to the NHS or Aberdeen City Council in respect of a delegated function and each report contains a section on risk. The Transformation Board monitors any new projects ensuring that an optional appraisal and project plan is developed in line with best practice. The benefits, both financial and non-financial, are highlighted and contained in the project plans.

Future Developments: The IJB should review and update its Strategic Plan during the financial year 2018/19.

Principle 5 – Developing the entity’s capacity, including the capability of its leadership and the individuals within it,

Entity’s Capacity: A workforce plan has been developed for the IJB covering health and social care services. Capacity is further developed and scrutinised by having stakeholders out with those employed by the IJB, ACC or NHS Grampian around the IJB and many of its working groups.

Leadership: The IJB has set itself goals and has evaluated their performance against these goals. An organisational development plan has been developed and agreed which has a focus on leadership. A conference was held by the partnership during the year focussing on social care and health which was well attended.

Individuals: An induction programme has been established for the IJB which complements the induction programmes of NHS Grampian and Aberdeen City Council. Monthly newsletters are sent to all staff and an awards ceremony was held to celebrate achievements during the year. Staff surveys have been undertaken for Council staff and the ‘imatter’ survey is undertaken annually. The outputs from these surveys are discussed by the IJB Executive Team and any necessary improvement actions implemented.

Improvement activities undertaken during the year: The ‘imatter’ survey was undertaken and teams have prepared their action plans on the basis of the information included. A dignity at work staff survey was also rolled out to staff and

the results are in the process of being reviewed by the IJB Executive Team. A leadership programme called 'From the Ground Up' led by the IJB Executive Team has been established. This involves the IJB Executive Team visiting operational services and also hosting quarterly leadership events for third and fourth tier managers.

Principle 6 - Managing risk and performance through robust internal control and strong public financial management,

Risk: Two risk registers have been developed. The first is an IJB strategic risk register and this documents the risk that the IJB may face in delivery of the strategic plan. The second register covers operational risks and is a summary of the departmental operational risk registers. Both the strategic risk register is updated frequently and reported to the Audit & Performance Systems Committee and the IJB.

Performance: A performance management framework has been developed for the IJB and is reported frequently to the Audit & Performance Systems Committee and the IJB. Performance is also monitored by bi-monthly city sector performance review meetings, where the Chief Executives and senior finance officers from NHS Grampian and Aberdeen City Council discuss performance and finance in a structured meeting with the Chief Officer and Chief Finance Officer. Performance management information is provided at a national NHS level and also contained within the statutory performance indicators reported by the Council. An annual performance report is required as defined in the legislation (Public Bodies (Joint Working) (Scotland) Act 2014) underpinning the creation of the IJB.

Internal Controls: The internal control environment is largely delivered by the partner organisations given their operational remit. However, internal controls are evidenced in the IJB integration scheme and financial regulations. A review of the IJB internal controls is undertaken annually by the Chief Internal Auditor and his opinion on the adequacy of the internal control environment is highlighted below.

Financial Management: The IJB has received quarterly reports on the financial position as indicated in the integration scheme. All IJB reports contain a financial implications section advising the IJB on the budget implications of agreeing the recommendations of the report.

Improvement activities undertaken during the year: A Medium Term Financial Strategy has been prepared and agreed by the IJB. A Strategic Commissioning Implementation plan was also approved. The Board Assurance and Escalation Framework was reviewed by Audit & Performance Systems Committee and final agreement was given to the revised version by the IJB on 30 January 2018.

Future Developments: A workshop will be undertaken with the IJB on the risk and risk registers. The risk appetite statement will be reviewed and agreed by the IJB.

Principle 7 – Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Transparency: The IJB meetings are held in public and the agendas, reports and minutes are available for the public to inspect. Public attendance is welcome at the

IJB meetings. The Audit & Performance Systems committee is held in public. The IJB has developed a publication scheme as required under the Freedom of Information (Scotland) Act 2002.

Reporting: The annual accounts management commentary section will have a focus on both financial and service performance over the last financial year.

Audit: The 2016/17 accounts received an unqualified audit opinion. The Audit & Performance Systems Committee has received an internal audit plan from the Chief Internal Auditor and internal audit reports over the last financial year.

Improvement activities undertaken during the year: Work has been undertaken on performance monitoring at a national level through the Ministerial Steering Group (MSG) and they have developed indicators for the IJBs which are used as the basis for improvement planning.

Review of Effectiveness

The IJB has responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements, including the system of internal control. The review is informed by the work of the IJB Executive Team (who have responsibility for the development and maintenance of the internal control framework environment), the work of the internal auditor and the Chief Internal Auditor's annual report, and reports from the external auditor and other review agencies and inspectorates.

The Chief Internal Auditor (2016/17 for illustrative purposes only, will be updated prior to publication) has reviewed the IJB's internal control framework and in his opinion reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2017.

However, some significant concerns have been identified throughout the year. Recommendations graded as "major" were made in an Aberdeen City Council Internal Audit report in 2016/17 relating to Adult Social Work Purchasing and Creditors Procedures. Recommendations made regarding the issues identified were either agreed by management or the Aberdeen City Council Audit, Risk and Scrutiny sought, and were satisfied with, management assurances at Committee.

In addition, there were limitations to the scope of planned Internal Audit work in relation to Aberdeen City Council. These limitations related to not being permitted access to records held within the Care First system (with data being provided to Internal Audit by officers) and impacted on audits of Self-Directed Support and the Care First System now remedied.

Whilst the above issues occurred, areas of good practice, improvement, and procedural compliance were also identified and these have been detailed in individual assignment reports.

The external auditor's 2017/18 annual report had one formal recommendation for the Executive Team about establishing a formal records management procedure with version control features. The IJB is in the process of rolling out Microsoft Office 365 and has created a separate environment for files for the final accounts. This system means only one version of the file will be available and it is possible to track back

when changes were made and by whom. This system will be rolled out in due course across the Partnership.

The governance framework was reviewed by the Executive Team against the governance principles identified in the CIPFA Role of the Chief Finance Officer Framework. The Audit & Performance Systems Committee were updated on progress with the implementation of improvement actions identified on the 10 April 2018.

The local code of corporate governance was agreed by the Audit & Performance Systems Committee on the 11 April 2017 and progress against the seven principles is detailed above. At Audit & Performance Systems Committee on the 10 April 2018 an update was provided on the sources of assurance contained in the local code of governance.

The work undertaken against the improvement actions highlighted in the 2017/18 annual governance statement are detailed in the improvement activities undertaken during the year sections detailed above.

It is recognised that the IJB's governance framework is evolving as it matures and that future development work is required to provide further assurance against the governance principles. A summarised list of the 2018/19 improvement actions is shown directly below:

	Area for Improvement and Outcome to Be Achieved	Improvement Action Agreed	Responsible Party	Completion Date
1.	Sub Committee Terms of Reference	Review to ensure still fit for purpose	IJB Committee Clerk	31 March 2019
2.	Duty of Candour	Implement across Partnership	Business Manager	31 March 2019
3.	Strategic Plan	Update the strategic plan	Lead Strategy Manager	31 March 2019
4.	Risk Registers	Hold a workshop on these with IJB members	Chief Officer	31 March 2019

In addition, the review of the effectiveness of the governance arrangements and systems of internal control within Aberdeen City Council and NHS Grampian places reliance upon the individual bodies' management assurances in relation to the soundness of their systems of internal control.

Accordingly the following notes support the reliance that is placed upon those systems:

i) Aberdeen City Council's governance framework – (2016/17 for illustrative purposes only, will be updated prior to publication)

Aberdeen City Council's governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out

in the Strategic Business Plan 2017/18, where the role of governance, performance management and risk management are recognised as crucial in improving stewardship and how we do business. Reviewing our governance activity enables us to consider whether those objectives have led to the delivery of appropriate, cost effective services to the citizens of Aberdeen.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be approved by the committee and referred to Council for its consideration. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk & Scrutiny Committee.

The Council has an approved Local Code of Corporate Governance which sets out our commitment to the seven principles recommended in the CIPFA / SOLACE Framework 2016, by citing the primary sources of assurance which demonstrate the effectiveness of our systems of internal control. The revised Code, approved by Council on 15 March 2017, can be viewed at:

<https://committees.aberdeencity.gov.uk/documents/s67547/LocalCodeofCorporateGovernance.pdf>

In summary the Council has undertaken a self-evaluation of its Local Code of Corporate Governance and determined that there is strong compliance with the Code and that governance processes, procedures, performance reporting and engagement material are well managed by the organisation. The Council has a clear approach to the decision-making process and seeks to engage with those in the community and with partners and staff.

The Chief Executive and Leader of the Council have certified that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council's systems of governance and that the annual review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively. Furthermore, the Council proposes over the coming year to take steps to further enhance governance arrangements and are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

ii) NHS Grampian governance framework – (2016/17 for illustrative purposes only, will be updated prior to publication)

NHS Grampian is required to operate within the aspects of the Scottish Public Finance Manual (SPFM) which are set out within the guidance issued to Chief Executives and more generally to all Board members by the Scottish Government Health Directorates as being applicable to NHS Boards. The SPFM is issued by

Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. The SPFM sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for efficiency, effectiveness and economy, and promotes good practice and high standards of propriety.

As Accountable Officer, the Chief Executive is responsible for maintaining an adequate and effective system of internal control that identifies, prioritises and manages the principal risks facing the organisation, promotes achievement of the organisation's aims and objectives and supports compliance with the organisation's policies and safeguarding public funds.

The Board continually monitors and reviews the effectiveness of the system of internal control with a specific focus on the delivery of safe and effective patient care, achievement of national and local targets and demonstrating best value and the efficient use of resources. Key elements of the system of internal control include:

- Executive and senior managers who are required to develop, implement and maintain adequate internal controls across their areas of responsibility;
- The work of the internal auditor, who submit to the Audit Committee regular reports which include their independent and objective opinion on the effectiveness of risk management, internal control and governance processes;
- Management letters and other reports issued by external audit;
- Financial plans, service plans and related organisational performance and risk management reports presented to the Board and relevant governance committees;
- Reports relating to the recent reviews carried out by Health Improvement Scotland and other inspection agencies; and
- Transparent assumptions regarding the timing of investment to deliver a significant reduction in high risk backlog maintenance in clinical areas agreed by the Scottish Government Health and Social Care Directorates as part of the Board's Asset Management Plan.
- Annual statements of assurance from each of the core governance committees of the Board, including the Endowment Committee with respect to the governance arrangements that exist for the NHS Grampian Endowment Funds charity which is consolidated with the main Board accounts;
- Written confirmation from executive and senior managers that controls within their individual areas of responsibility are adequate and have been operating effectively throughout the year;
- During the year, minutes of the meetings of the core governance committees were provided to all Board members.
- Consideration of the governance statement and its disclosures by Internal Audit, the Audit Committee and Board members;

Based on the evidence considered during the review of the effectiveness of the internal control environment operating within NHS Grampian, the Chief Executive has confirmed that he is not aware of any outstanding significant control weaknesses or other failures to achieve the standards set out in the guidance that applies to NHS Boards in relation to governance, risk management and internal control.

Certification

Subject to the above, and on the basis of assurances provided, we consider that the internal control environment operating during the reporting period provides reasonable and objective assurance that any significant risks impacting upon the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the internal control environment and action plans are in place to identify areas for improvement. It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board's systems of governance.

.....
Judith Proctor
Chief Officer

.....
Jonathan Passmore
Chair



Audit and Performance Systems Committee

Report Title	Internal Audit Annual Report and Internal Financial Control Statement 2017/18
Lead Officer	David Hughes, Chief Internal Auditor
Report Author (Job Title, Organisation)	David Hughes, Chief Internal Auditor
Report Number	HSCP.18.021
Date of Report	2 April 2018
Date of Meeting	10 April 2018

1: Purpose of the Report

The purpose of this report is to provide the Committee with Internal Audit's Annual Report and Internal Financial Control Statement for 2017/18.

2: Summary of Key Information

It is one of the functions of the Integration Joint Board Audit and Performance Systems Committee to review the activities of the Internal Audit function, including its annual work programme.

The Internal Audit plan for 2017/18 was agreed by the Committee on 11 April 2017. The plan consisted of one audit for the IJB with a number of specific audits agreed by Aberdeen City Council's Audit, Risk and Scrutiny Committee relating to Adult Social Care in the Council and by NHS Grampian's Audit Committee in relation to audits for that body.

The resultant outputs are reported as follows:

- IJB Internal Audit reports reported to the IJB Audit Committee in the first instance and thereafter to the Aberdeen City and NHS Grampian Audit Committees.
- Aberdeen City Council Adult Social Care audits reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee in the first instance and thereafter to the IJB Audit Committee.
- Audits in NHS Grampian to the NHS Grampian Audit Committee in the first instance and thereafter to the IJB Audit Committee for relevant audits.



Audit and Performance Systems Committee

Appendix A to this report details the position with audits contained in the 2017/18 plan and those carried forward from 2016/17.

It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Financial Control Statement. This is supplemented by review of other relevant documentation, including Integration Joint Board and Audit and Performance Systems Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).

Internal Audit's annual opinion is attached as Appendix B, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2018.

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP). Following completion of a review by KPMG in this respect, the results were reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee. An action plan was agreed in relation to recommendations made, and progress is being monitored by the Audit, Risk and Scrutiny Committee.

The Standards also require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by the Board on 29 March 2016). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan is approved by the IJB Audit and Performance Systems Committee; and Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor.

There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2017/18, there have been no such limitations.

Aberdeen City Council's Audit, Risk and Scrutiny Committee is scheduled to consider Internal Audit's annual report on the Council on 26 June 2018. NHS Grampian's Audit Committee will consider their Internal Auditors annual report on 26 June 2018. An update will be provided to the Audit and Performance Systems Committee should there be any issues that require to be reported.

Appendix C to this report shows the progress that IJB management have made



Audit and Performance Systems Committee

with implementing recommendations that have been agreed in Internal Audit reports relating to the IJB.

3: Equalities, Financial, Workforce and Other Implications

Equalities – An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the Internal Audit Annual Report and Internal Financial Control Statement for 2017/18 and there will be no differential impact, as a result of this report, on people with protected characteristics.

Financial – There are no financial implications arising directly from this report.

Workforce – There are no workforce implications arising directly from this report.

Other – There are no other implications arising directly from this report.

4: Management of Risk

Identified risk(s): The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the resultant report.

How might the content of this report impact or mitigate the known risks: Where risks have been identified during the Internal Audit process, recommendations have been made to management in order to mitigate these risks.

5: Recommendations

It is recommended that the Committee:

1. Note the Internal Financial Control Statement for 2017/18;
2. Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;



Audit and Performance Systems Committee

3. Note that there has been no limitation to the scope of Internal Audit work during 2017/18;
4. Note that an external review of Internal Audit was completed by KPMG and the outcome from that was reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee; and
5. Note the progress that IJB management has made with implementing recommendations agreed in Internal Audit reports relating to the IJB.



Audit and Performance Systems Committee

APPENDIX A

Service	Audit Topic	Position
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2016/17 Planned Audit Work Completed in 2017/18

Integration Joint Board	Health and Social Care Partnership: Post Integration Review	Complete September 2017 Reported to A&PS Committee 21.11.17
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NHS Grampian	Budget Setting and Staff Governance	Complete May 2017 Reported to A&PS Committee 21.08.17
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2017/18 Planned Audit Work

Integration Joint Board	Transformational Funding	Complete December 2017 Reported to A&PS Committee 02.03.18
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Aberdeen City Council Adult Social Work	Social Work Transport	Complete September 2017 Reported to A&PS Committee 02.03.18
	Social Work Payroll	Complete January 2018 Reported to A&PS Committee 10.04.18
	Financial Assessments	Complete February 2018 Reported to A&PS Committee 10.04.18
	Care Management	Draft report issued February 2018 Due to be reported to A&PS Cmte 19.06.18



Audit and Performance Systems Committee

Service	Audit Topic	Position
2017/18 Planned Audit Work (continued)		
NHS Grampian	Partnership Working: IJB Performance reporting and KPIs	To be confirmed



Audit and Performance Systems Committee

Appendix B

Internal Audit Statement relating to Aberdeen City Integration Joint Board's Internal Control System for the year ended 31 March 2018

As Chief Internal Auditor of Aberdeen City Integration Joint Board, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the Council for the year ended 31 March 2018. The purpose of this statement is to assist the Chief Financial Officer in forming his opinion in relation to the annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and control in the year to 31 March 2018.

Whilst issues were identified in audits that have been completed, as reported to the Audit and Performance Systems Committee, areas of good practice, improvement, and procedural compliance were also identified.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2018 in relation to the Integration Joint Board and relevant areas within Aberdeen City Council;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Board's external auditors;
- Internal Audit's knowledge of the Board's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.
- Consideration will be given to the contents of NHS Grampian's Internal Audit annual report when available.



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Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Board's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

Sound internal controls

The main objectives of the Board's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Board is continually seeking to improve the effectiveness of its systems of internal control.

The Work of Internal Audit

Internal Audit is an independent appraisal function established by the Board for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with Chief Officers and the Audit and Performance Systems Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the



Audit and Performance Systems Committee

attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

**David Hughes,
Chief Internal Auditor,
Aberdeen City Integration Joint Board
2 April 2018**



Audit and Performance Systems Committee

Appendix C

POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN INTEGRATION JOINT BOARD

INTERNAL AUDIT REPORTS

AS AT 2 APRIL 2018

Note: This is on an exception basis, where all recommendations in a report have been implemented, the report is not shown.



Audit and Performance Systems Committee

KEY TO COLOURING USED

Recommendation Grading	Definition
Major	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation. Financial Regulations have been consistently breached.
Significant	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

Period Recommendation Overdue
Recommendation overdue by more than 12 months
Recommendation overdue by between 6 to 12 months
Recommendation overdue by less than 6 months



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Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 28.02.18	Confirmed Implemented by Service	Not implemented by original due date	
AC1724	Health and Social Care Post Integration Review	September 2017	11	5	3	2	1 Significant
							1 Important
The position with the overdue recommendations is as follows:							
Chief Officer	Overdue Recommendation	Grading / Due Date	Position				
Chief Finance Officer	The IJB should progress development of its scheme of delegation (2.1.4)	Significant December 2017	The Service has advised that this couldn't be progressed until delegations had been finalised in the Aberdeen City Council Scheme of Governance. The recommendation will now be implemented by the end of June 2018.				
Chief Finance Officer	The CFO in conjunction with partners finance teams should develop a budget monitoring procedure (2.3.2)	Important December 2017	The Service has advised that the procedure is still to be finalised and will be completed by the end of January 2018. Internal Audit is awaiting confirmation regarding this.				
AC1807	Transformational Funding	December 2017	12	8	8	0	

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Audit and Performance Systems Committee

Report Title	Internal Audit Plan 2018/19
Lead Officer	David Hughes, Chief Internal Auditor
Report Author	David Hughes, Chief Internal Auditor
Report Number	HSCP.18.004
Date of Report	2 April 2018
Date of Meeting	10 April 2018

1: Purpose of the Report

The purpose of this report is to seek approval of the Internal Audit Plan for the Aberdeen City Integration Joint Board for 2018/19.

2: Summary of Key Information

It is one of the duties of the Integration Joint Board Audit and Performance Systems Committee to review and approve the annual Internal Audit plan on behalf of the Integration Joint Board and, thereafter, receive reports on that planned work.

The Committee is also required to support the IJB in ensuring that the strategic integrated assurance and performance framework is working effectively.

The Internal Audit plan, as it relates to the Integration Joint Board, is attached at Appendix A. Assurance will also be taken from the wider work of Internal Audit within Aberdeen City Council, specific work relating to Adult Social Care Services in the Council, and from NHS Grampian Internal Audit reports, amongst other sources.

Outputs from the IJB Internal Audit plan will be shared with Aberdeen City Council's Audit, Risk and Scrutiny Committee once they have been considered by the IJB Audit and Performance Systems Committee.



Audit and Performance Systems Committee

Aberdeen City Council's Audit, Risk and Scrutiny Committee approved the 2018/19 Internal Audit Plan relating to Adult Social Care Services in the Council on 22 February (attached as Appendix B to this report) and the basis on which the overall plan was developed. Outputs from these reviews will be shared with the Aberdeen City IJB Audit and Performance Systems Committee for information once they have been considered by Aberdeen City Council's Audit, Risk and Scrutiny Committee.

Audits undertaken by NHS Grampian's Internal Auditors, PWC, will be reported to the NHS Grampian Audit Committee in the first instance. Where there is a direct relationship between the work undertaken and the IJB, the reports will be presented to the Aberdeen City IJB Audit and Performance Systems Committee for information. The Internal Audit plan for NHS Grampian for 2018/19 will be circulated when it has been agreed.

3: Equalities, Financial, Workforce and Other Implications

Equalities – An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the Internal Audit Plan for 2018/19 and there will be no differential impact, as a result of this report, on people with protected characteristics.

Financial – There are no financial implications arising directly from this report.

Workforce – There are no workforce implications arising directly from this report.

Other – There are no other implications arising directly from this report.

4: Management of Risk

Identified risk(s): The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the resultant report.

How might the content of this report impact or mitigate the known risks: Where risks have been identified during the Internal Audit process,



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recommendations have been made to management in order to mitigate these risks.

5: Recommendations

It is recommended that the Committee:

Approve the Internal Audit plan for 2018/19.



Audit and Performance Systems Committee

APPENDIX A

ABERDEEN CITY INTEGRATION JOINT BOARD

INTERNAL AUDIT PLAN 2018-19

SUBJECT	SCOPE	OBJECTIVE	Indicative Quarter
Budget Setting, Monitoring and Financial Reporting	IJB Budget Setting, Monitoring and Financial Reporting	To provide assurance that appropriate arrangements are in place regarding IJB budget and financial reporting.	Q2
Directions	Directions	To provide assurance that the arrangements in place for issuing Directions, and the Directions themselves, are appropriate, and that adequate procedures are in place for monitoring performance.	Q3
New Models of Delivery / Co-location of staff	IJB's arrangements following introduction of new structure from April 2018	To provide assurance over the IJB's arrangements regarding their new structure from April 2018 ensuring that accountability and reporting arrangements are clear, appropriate policies and procedures are in place, and that there is clarity regarding schemes of delegation.	Q4



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APPENDIX B

ABERDEEN CITY COUNCIL INTERNAL AUDIT PLAN 2018/19 (Extract)

SUBJECT	SCOPE	OBJECTIVE	Target AR&S Committee
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ADULT SOCIAL CARE SERVICES

Criminal Justice	Criminal Justice Service	To provide assurance that adequate control is exercised over income and expenditure, that system data is accurate and adequately supported, and that reporting arrangements between the Council and IJB are appropriate.	April 2019
Charging Policy	Health and Social Care Partnership Charging Policy	To provide assurance that there is a clear charging policy in place and that it is being complied with.	September 2018
National Care Home Contract	Sustainability	To provide assurance that risk to supply is controlled through adequate monitoring of supply and suppliers and related business continuity plans.	December 2018

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Audit and Performance Systems Committee

Report Title	Internal Audit – Financial Assessments
Lead Officer	David Hughes, Chief Internal Auditor
Report Author (Job Title, Organisation)	David Hughes, Chief Internal Auditor
Report Number	HSCP.18.025
Date of Report	15 March 2018
Date of Meeting	10 April 2018

1: Purpose of the Report

A protocol was agreed by the Audit and Performance Systems Committee and Aberdeen City Council’s Audit, Risk and Scrutiny Committee regarding sharing the outcomes from Internal Audit work undertaken in the respective organisations following consideration of the outcomes by the “lead” Committee.

The purpose of this report is to present the outcome from the planned audit of Financial Assessments that was included in the 2017/18 Internal Audit Plan for Aberdeen City Council. The Internal Audit report was considered by the Aberdeen City Council Audit, Risk and Scrutiny Committee in February 2018.

2: Summary of Key Information

Under Social Work legislation there is an option for the Council to charge adult users of Non-Residential social work services for services provided. These services include care and support, housing support, warden charges, community alarms and day care. A charging policy is in operation, based on the ability of the service user to pay, as determined by a financial assessment of their income, capital, and specified outgoings, completed by a dedicated Support Team within Finance.

Similarly, service users who require full time residential care are assessed on their ability to pay (typically weekly Care Home fees) through an examination of their weekly income and any capital held, which can also include ownership of property.

The objective of this audit was to consider whether adequate arrangements are in place across the Service to undertake financial assessments in an accurate and efficient manner. In general this is the case, however application forms are not all being fully completed, and supporting evidence is not always being obtained and passed to Finance promptly by Care Managers, retained, and challenged where



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appropriate. Finance already completes interim assessments and has agreed to implement additional checks and retain evidence that these have been completed. An escalation process will be developed with Care Managers for cases where there are delays in obtaining full information.

Although a notional income from service users' capital assets (excluding their main residence) is included in the Non-Residential financial assessment and charging policy, the Service relies on applicants volunteering information on the value of their assets rather than seeking independent confirmation as is the case for Residential charging which falls under separate legislation – though in some cases these had also not been verified as bank mandates had expired prior to assessments being completed. As a result if this information is not volunteered those with capital in excess of the relevant thresholds may not be subject to the appropriate charges as set out in the charging policy. The Service will review the local policy to determine the best way of dealing with this.

DWP benefit rates and personal allowances to be factored into financial assessments are updated annually each April, however these are not automatically updated on the system as variations in service users' circumstances cannot be adequately reflected without manual intervention. Whilst this ensures greater accuracy there have been delays in processing changes, which will have to be backdated. The Service plans to bring assessments up to date prior to further changes planned for phased implementation from October 2018.

3: Equalities, Financial, Workforce and Other Implications

Equalities – An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the contents of an Internal Audit report and there will be no differential impact, as a result of this report, on people with protected characteristics.

Financial – There are no financial implications arising directly from this report.

Workforce – There are no workforce implications arising directly from this report.

Other – There are no other implications arising directly from this report.



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4: Management of Risk

Identified risk(s): The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the resultant report.

How might the content of this report impact or mitigate the known risks: Where risks have been identified during the Internal Audit process, recommendations have been made to management in order to mitigate these risks.

5: Recommendations

It is recommended that the Audit and Performance Systems Committee review, discuss and comment on the issues raised within this report.

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Audit and Performance Systems Committee

Report Title	Internal Audit – Adult Social Work Payroll
Lead Officer	David Hughes, Chief Internal Auditor
Report Author (Job Title, Organisation)	David Hughes, Chief Internal Auditor
Report Number	HSCP.18.024
Date of Report	15 March 2018
Date of Meeting	10 April 2018

1: Purpose of the Report

A protocol was agreed by the Audit and Performance Systems Committee and Aberdeen City Council’s Audit, Risk and Scrutiny Committee regarding sharing the outcomes from Internal Audit work undertaken in the respective organisations following consideration of the outcomes by the “lead” Committee.

The purpose of this report is to present the outcome from the planned audit of Adult Social Work Payroll that was included in the 2017/18 Internal Audit Plan for Aberdeen City Council. The Internal Audit report was considered by the Aberdeen City Council Audit, Risk and Scrutiny Committee in February 2018.

2: Summary of Key Information

Adult Services employs staff in day care centres, sheltered housing and care homes, along with out of hours care, criminal justice and mental health. The staffing budget for 2016/17 was £17.1 million, with a planned budget for 2017/18 of £17.3 million. The budget is managed by the Health and Social Care Partnership, via Aberdeen City Council’s HR Service Centre (HRSC) and Payroll systems and processes.

The objective of this audit was to consider whether all aspects of payroll administration (new starts, leavers, timesheet completion and authorisation, overtime approval, etc) are adequately controlled.

There are suitable controls over processing the majority of documentation by HR and Payroll, however authorised signatories and processes within the Service need to be reviewed to ensure claims for all payments are adequately supported and treated consistently in line with policy. Issues identified included: insufficient evidence of actual times worked; varying timesheet claim periods; variations in



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whether overtime, additional hours or hours under different contracts (at different rates of pay) were claimed for additional work; and duplicate travel claims.

Whilst errors were identified in payments made to staff, these were generally small in value (under £30), although more significant overpayments (£230 and £1,835) were identified in cases relating to higher duty payments that had not been processed correctly by Payroll. All identified errors are being adjusted.

3: Equalities, Financial, Workforce and Other Implications

Equalities – An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the contents of an Internal Audit report and there will be no differential impact, as a result of this report, on people with protected characteristics.

Financial – There are no financial implications arising directly from this report.

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How might the content of this report impact or mitigate the known risks: Where risks have been identified during the Internal Audit process, recommendations have been made to management in order to mitigate these risks.



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5:	Recommendations
	<p>It is recommended that the Audit and Performance Systems Committee review, discuss and comment on the issues raised within this report.</p>

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