



SB CARES INTERNAL AUDIT ANNUAL REPORT 2016/17

Report by Chief Officer Audit & Risk, Scottish Borders Council

LIMITED LIABILITY PARTNERSHIP STRATEGIC GOVERNANCE GROUP

20 June 2017

1 PURPOSE AND SUMMARY

To inform the SGG of the findings of the SB Cares Internal Audit Annual Report 2016/17

- 1.1 The report context and 7 recommendations.
- 1.2 Details of the action plan agreed by SB Cares.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Strategic Governance Group:-**
 - (a) Note the findings of the report.**
 - (b) Note the actions agreed by SB Cares.**

3 INTERNAL AUDIT ANNUAL REPORT 2016/17

3.1 Introduction

SBC's Internal Audit team carried out its second internal audit review of SB Cares since it was established on 1 April 2015 as an arms-length external organisation (ALEO) majority owned (99%) by Scottish Borders Council.

The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards 2013 (PSIAS) including the production of this report to communicate the results of the audit work.

3.2 Operating Context

SB Cares Business Plan sets out its 3 Strategic Aims which are: Quality; Efficiency and Business Growth. As it cannot differentiate on cost (because its costs are higher than its competitors owing to the additional services that it is required to provide such as step-in as Provider of Last Resort (POLR) and attending visits in outlying locations which are unprofitable), it aims to be the provider of choice. So to achieve this and be successful it needs to deliver on quality over its competitors.

It is recognised the contribution that SB Cares and SB Supports staff have made. SB Cares have been working very hard to ensure the success of the commissioned venture, often in uncharted territory with limited resources to do so. SB Cares have been delivering the service to a quality standard as recognised by the Care Inspectorate within the reduced budgets that were agreed. The challenges are the financial constraints, cost control and achieving further efficiencies, income generation, and insufficient specialist resources to deliver a commercial / public service hybrid venture within reasonable timescales. Improvement action is likely to be in the 'spend to save' arena and sufficient investment with the right people in place will maximise the chances of success.

3.3 Scope:

The scope of the Internal Audit work during 2016/17, involved assessment and evaluation of the following areas:

- **Corporate Governance:** To establish that the governance framework that has been put in place is effective and that roles and responsibilities have been established, are clearly defined and are being fulfilled and whether the governing bodies are receiving sufficient management reporting and information to be able to effectively make decisions, challenge and review.
- **Financial Governance:** To establish whether the systems and controls have been put in place and that they are effective (including segregation of duties, reconciliations, and authorisations). Two discrete pieces of work on areas that Management requested for review (Income and Payroll).
- **Financial Management:** To review financial management and assess whether assurance, provided through financial reporting, is delivered to Management and governing bodies and is sufficiently useful and transparent to enable effective decision making.
- **Performance Management:** To establish whether appropriate performance management arrangements are in place which recognises both the strategic and operational objectives of the Company as well as the contract monitoring requirements of the Council's Adult Social Care service.
- **Follow up on previous audit recommendations and Management Improvement Plan** agreed at conclusion of previous Internal Audit review. This included the following development areas: Payroll; Home Shopping, BAES and Management Accounts.

3.4 Audit Conclusions, Opinions and Recommendations

Area	Audit Opinion	Recommendation	Priority
Corporate Governance	<p>The governance framework is in place and Internal Audit considers that the governing bodies are generally effective however is hindered by :</p> <ul style="list-style-type: none"> • Lack of complete and quality business information to Board and SGG • Lack of strategic direction and equal partnering • Mix of non-optimal use by SB Cares of support services SLAs and insufficient resources from SBC as defined in the SLAs • SB Supports working within a very lean structure • Performance Management not in place as yet 	<p>All contracts and SLA'S should be reviewed by Management and formally signed-off by relevant parties with a complete set held by both SBC and SB Supports LLP.</p>	<p>P3 *</p>
Financial Governance	<p>From the high level limited audit testing that was carried out this year Internal Audit established that the systems and processes have been put in place and the systems of internal control have been established.</p> <p>From the more detailed work that was carried out on Payroll, Internal Audit identified some areas of weakness and inefficiency where improvements could be made.</p> <p>Internal Audit intends to focus on the effectiveness of the systems of internal control and undertake a greater degree of substantive testing within the Internal Audit programme of work for 2017/18.</p>	<p>Management should implement the more specific recommendations relating to Payroll controls</p>	<p>P3 *</p>

Area	Audit Opinion	Recommendation	Priority
Financial Management including Business Planning, Transformation Programme and Reporting	<p>Target contribution for 2016/17 was only met due to the one-off stock capitalisation which will not be available for future years. The 2017/18 target contribution is at risk of not being met. The income and efficiencies projections forecast in the original Business Plan appear to be too ambitious in terms both time and amount.</p> <p>The income projections require further analysis to determine accurate profit margin projection figures and this can only be done once the associated cost per unit is known. Slow development of the necessary costing models means that the information is not yet available to accurately calculate projected profit margins. Additionally the cost to bring the product / service to market needs to be established and factored. Projected Efficiencies based on the 4 cases requires further review to identify whether they are achievable within the environment in which SB Cares operates.</p> <p>The Transformation Tracker document needs to cover whole of project /programme not just in year and evidence clear justification for the projects inclusion in the Programme supported by ROI (Return on Investment) data.</p>	<p>The original Business Case and Business Plan forecasts should be compared with up to date, more accurate data and the targets revised accordingly in agreement with the Board and the SGG.</p> <p>The Transformation Tracker Document should be developed to include whole of programme and individual projects income and costs and clear Return on Investment (ROI) information.</p>	<p>P2 *</p> <p>P3 *</p>

Area	Audit Opinion	Recommendation	Priority
Financial Management including Business Planning, Transformation Programme and Reporting (cont'd)	Management Accounts and Budget Monitoring are in place but require to be further developed to enhance transparency and comparability. The quality of the Management Accounts and Budget Monitoring relies on improvements to the quality and accuracy of information available. This should be improved by the introduction of Zero Based Budgeting and Activity Based Costing models that Management intend to develop and introduce for 2017/18.	Balance Sheet Analysis and Cash-flow Statements should be added to the routine reporting and Management Accounts developed to maximise transparency and comparability. Ratio analysis should be carried out.	P3 *
Performance Management	The Performance Management Framework has not been fully developed and so fully effective performance monitoring and contact monitoring cannot take place.	<p>Management should carefully consider what aspects of performance should be measured and how to measure them in order to deliver meaningful management information.</p> <p>Management should again request support from performance specialists within the Council to complete the Performance Framework.</p>	<p>P3 *</p> <p>P3 *</p>

*** Gradings of Internal Audit Recommendations are:**

Priority 1 – Arising from a finding which leaves SB Cares open to a very high risk of not achieving its strategic objectives, and where the risk is sufficiently significant to require immediate action within one month of formally raising the issue.

Priority 2 – Arising from a finding which leaves SB Cares open to significant risk of not achieving its strategic objectives requiring reasonably urgent action within three months of formally raising the issue.

Priority 3 – Arising from a finding which leaves SB Cares open to moderate risk of not achieving its strategic objectives requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations

Action Plan Summary

All recommendations made have been agreed with SB Cares Management Team for implementation and are complete or in process. Progress on their implementation will be followed up by Internal Audit during 2017/18.

4 IMPLICATIONS

4.1 Financial Recommendations

There are no costs attached to any of the recommendations contained in this report. Implementation of Internal Audit recommendations will be complete within current budget.

4.2 Risk and Mitigations

All Internal Audit recommendations have been approved and will be implemented in year.

4.3 Equalities

There is no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

4.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

4.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation of this report.

4.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5 CONSULTATION

- 5.1 The SB Cares Board and Senior Management Team have agreed the Internal Audit Annual Report 2016/17.

Author(s)

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