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SB Cares Internal Audit Annual Report 2016/17

Executive Summary

to

SB Cares Board

19 May 2017

SB Cares Board 25 May 2017

1 Introduction

- 1.1 This is the second internal audit 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. It was set up to provide a number of adult care services: Care at Home; Residential Care; Extra Care Housing; Border Care; Older Peoples' Day Services; Learning Disability Services; and Borders Ability Equipment Store (BAES).
- 1.2 The ALEO was set up under the LLP structure as it was deemed the most appropriate for the purpose for which it was created. A combination of savings targets, growing cost pressures, changing legislation and increased demand were the driving factors behind its conception. To continue to deliver these services in-house was deemed unsustainable as the actual cost of delivering the services was over £1million in excess of its available budget.
- 1.3 SBC was required to make £5.6million additional savings in Social Work over 5 years, face additional cost pressures of Self Directed Support (SDS) and plan for a forecast 11% increase in demand for services; all set against a changing social work environment of Health & Social Care Integration and commissioning and legislation that required all clients to move towards SDS.

2 Audit Scope

- 2.1 The scope of this audit work, specified in the SB Cares Internal Audit Plan 2016/17 approved by SB Cares Board on 24 November 2016, 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 Management Summary

Corporate Governance and Reporting

- 3.1 SB Cares has an established corporate governance framework with defined roles and responsibilities. It is run by a Senior Management Team who report to SB Cares Board (the Board) then to the Council's LLP Strategic Governance Group (SGG). Through the SBC Scheme of Administration (Amended January 2017) the role of the SGG is defined and certain matters reserved for approval by Full Council. The Minutes of the SGG are presented at each Council meeting. Both the Board and the SGG meet regularly (Board monthly and SGG quarterly) following a defined Schedule of Meetings, have formal Agendas and Minutes taken.
- 3.2 During the course of the audit the group structure was summarised and a list was compiled, and provided to Management in detail within Appendix 1 of the full report, of the full set of associated Partnership Agreements, Contracts and Service Level Agreements (SLAs) that define the obligations of each entity and the services that SB Cares will provide. Some of the SLAs remain to be finalised and, as SB Cares Management are not aware of the exact content of some, they cannot be used to best effect. Management have told us of their intention to review these over the next few months to ensure that SB Cares meet the business need. We would support this proposed action and further recommend that the full suite of documents be formally signed off following review by relevant parties and a complete set be held by both SBC and SB Supports LLP. **(Recommendation 5.1)**
- 3.3 SB Cares LLP risk register is still in draft and has never been finalised. Management are taking steps to address this.
- 3.4 From our review we found that the Board and the SGG are generally effective in fulfilling their roles as far as they can be within the confines of the information that is made available to them in terms of its transparency and usefulness for analysis, decision making, scrutiny and review.
- 3.5 We found that some of the reporting to the SGG took on a more positive tone which may not reflect the degree of concern that the Board have relating to delivering the Business Plan or the financial targets.

Conclusion and Audit Opinion

The governance framework is in place and we consider that the governing bodies are generally effective. However they are hindered in their effectiveness by a number of factors:

- a lack of complete business information to the Board and the SGG (due to lack of quality information available) to make fully informed decisions and fulfil their review scrutiny and challenge role;
- a lack of strategic direction and SB Cares not being fully engaged as an equal Partner within the working arrangement by the commissioning bodies (Integration Joint Board through to the Council's Adult Social Care service);
- a mix of non optimal use by SB Cares of support services SLAs and insufficient support for SB Cares in terms of resource, skills, expertise and investment from SBC;
- SB Supports LLP are working within a very lean structure; and
- the Performance Management Framework that would facilitate performance reporting and contract monitoring is still under development and it relies on good quality information which is lacking.

Financial Governance

3.6 The Financial Governance testing undertaken this year was a high level review through discussions with Management of the controls in place and their efficacy with limited testing on: Balance Sheet Reconciliations (to verify existence and segregation of duties); Creditors (to verify accuracy and authorisations); Income received (to verify accuracy of recording); Payroll (to verify the effectiveness of the processes in place leading to the calculation of gross pay). With the exception of Payroll (the findings of which are expanded upon in 3.7), from the samples that we reviewed we found that the controls were effective in these areas.

3.7 Payroll

A discrete piece of work was carried out on Payroll to establish the workflows, the existence and effectiveness of internal controls and to assess opportunities for simplifying the end-to-end process. We found that although segregation of duties and authorisations are in place, weaknesses and inefficiencies exist. From our review we found that the Payroll system and processes are not sufficiently transparent to facilitate and enable the necessary reconciliations and forecasting. The HR Shared Services SLA (HRSS SLA) remains in draft and has not been signed off and the Management Improvement Actions of the previous audit remain to be implemented. Our Findings and Recommendations on Payroll have been provided to Management in detail within Appendix 2 of the full report. **(Recommendation 5.2)**

Conclusion and Audit Opinion

From the high level limited testing that we carried out this year we established that the systems and processes have been put in place and the systems of internal control have been established. Improvements have been made since we previously audited SB Cares. However more substantive testing needs to be carried out to be able to provide Management with a greater level of assurance on the effectiveness of the systems of internal control. From the more detailed work that we carried out on Payroll we identified some areas of weakness and inefficiency where improvements could be made.

With the agreement of SB Cares Management and the Board we intend to focus on the effectiveness of the systems of internal control and undertake a greater degree of substantive testing and tests of internal controls within the Internal Audit programme of work for 2017/18.

Financial Management including Business Planning, Transformation Programme and Reporting

- 3.8 The Business Plan 2016/17 and now 2017/18 sets out the financial projections for the 5 year period and the contribution to be made and returned to the Council by discount to the contract. It was to be achieved through a number of activities designed to increase income and decrease in costs.
- 3.9 The income projections contained within the Business Plan derive from commissioned work undertaken on the original Business Case and were subject to market penetration and sensitivity analysis. The modelling was based on 3 scenarios of income generation and each scenario tested against the market penetration needed to meet the turnover forecast. The likely market was an unknown and the assumed market share is based on % of population over 65 years and 55 years old for the two main new business streams identified.
- 3.10 The two main identified opportunities for new income generation in 2016/17 were maximising opportunities for Alarm Rentals and Equipment Sales. We consider that the analysis carried out and the assumed projections arrived at requires further work.
- 3.11 At this point it would be prudent for Management to re-visit the Business Case and perform an assessment against the current Business Plan and performance to identify whether the assumptions in the Business Case were accurate and whether the methodology used to project forecasts is still considered to be appropriate, robust and accurate; to identify any implications from the changes and developments that were not factored into the Business Case and to remind themselves of some of its key messages and evaluate their plans and projects designed for both efficiencies and income generation against the original projected figures.
- 3.12 We have made a recommendation that, once the accurate cost information is available and SB Cares Management have reviewed and analysed the income projections and efficiency savings in the original Business Case to ensure that they are still realisable from their programme of projects, the projected profit margins are re-calculated and the Business Plan updated with the restated figures and targets. **(Recommendation 5.3)**
- 3.13 A Transformation Programme of Projects was set up at the start of 2016 designed to manage delivery of the projects responsible for delivering the contribution. The Transformation Programme Brief (approved by the Board June 2016) identified the following “Enablers” required for delivery of the Business Plan: Completion of Activity Based Costing (ABC) per unit and forecasts for all services; continual review of savings and investment targets; roll out of forecasts and training to managers; development of forecasting and business intelligence tools. These enablers are still in the process of being developed and until they have been effective business and financial management and planning is not possible.
- 3.14 The Transformation Tracker Document is reported to the SGG and identifies projects, planned financial impact, full year effect and includes both a RAG status for delivery and a RAG status for financial target. In the interests of transparency and to aid review scrutiny and decision making we recommend that the Tracker be developed as a monitoring and reporting tool to include whole of programme / project income and costs (per project), with justification for the figures linked to detailed income and cost analysis based on realistic and justifiable criteria that has been subject to scrutiny. The inclusion for the project on the Transformation Programme should be clearly justified and evidenced, to include robust cost benefit analysis data. **(Recommendation 5.4)**

- 3.15 Budget Monitoring takes place and the resultant report is a standing item on the SGG agenda. Management Accounts have been developed and are presented at each meeting of the Board.
- 3.16 Our previous audit identified Management Accounts and reporting as an area for development by the end of March 2017. We found that though Management Accounts are being produced and presented to the Board, they don't yet contain all the information that Management and the Board required for effective decision making and the SGG for scrutiny, challenge and review. Transparency and comparability is required so that the figures reported within the Management Accounts are easily traceable to the Business Plan, Transformation Tracker and Financial Statements.
- 3.17 We recommend that Balance Sheet analysis and Cashflow Statements be added to the routine reporting and (following completion of Recommendation 5.3) that Ratio Analysis (profitability and liquidity) is introduced. **(Recommendation 5.5)**
- 3.18 Reporting from the Board to the SGG must ensure it presents an accurate picture and provide the detailed quality information to facilitate effective review, scrutiny and challenge and enable effective decision making and performance monitoring. Care should be taken to avoid over positive language that may present a distorted impression of risks and performance.

Conclusion and Audit Opinion

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.

Reliance has been placed on the assumptions within the Business Case based on the market penetration and sensitivity analysis carried out by the contractors. These assumptions formed the basis by which the projected figures for income and contribution were arrived at, that informed the resultant Business Plan. The market penetration and sensitivity analysis were high level and the assumptions arrived at based on unknowns. Further due diligence and management of unknowns is required on which to base reliable financial targets before the figures make it onto an approved business plan.

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.

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.

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.

Performance Management

- 3.19 Effective performance management is fundamental to guiding the company in achieving not only its own strategic objectives but also its contribution towards those of the council. And it provides the basis for contract management with SBC.
- 3.20 From our review we found that a Performance Management Framework is being developed although insufficient specialist resource is obstructing progress. Agreed KPIs and metrics are not yet in place that deliver meaningful management information to monitor the strategic and operational objectives and practices of SB Supports LLP and also its contribution towards the wider objectives of the Council's Adult Social Care service. SB Supports LLP is unable to demonstrate full compliance with contract specifications through the production of specified KPIs.
- 3.21 Overall the absence of effective performance monitoring is detrimental both to the business planning process and efforts to target and improve operational efficiency and service quality. We have made two **Recommendations (5.6 & 5.7)** relating to progressing development of the performance management framework and deciding what aspects should be measured to provide them with meaningful information to fulfil their strategic and contractual obligations and to facilitate monitoring of their performance for business planning. Without it in place it is not possible to evidence best value, nor obligations under the contract.

Conclusion and Audit Opinion

The Performance Management Framework has not been fully developed and so effective performance monitoring and contact monitoring cannot take place.

4 Overall Summary and Conclusion

- 4.1 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.
- 4.2 It must be 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. 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.
- 4.3 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.
- 4.4 We would like to thank those officers who assisted us during our review.

5 Recommendations

Recommendations in reports are suggested changes to existing procedures or processes. The grading of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The gradings 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.

Ref No	Recommendation / Area of Improvement	Priority	Agreed Management Action
5.1	The documents (provided to Management in detail within Appendix 1 of the full report) should be reviewed by Management and formally signed-off by relevant parties with a complete set held by both SBC and SB Supports LLP.	P3	Responsible Officer: Philip Barr, Managing Director Completion Date: July 2017
5.2	Management should implement the more specific recommendations relating to Payroll (provided to Management in detail within Appendix 2 of the full report).	P3	Responsible Officer: Lynne Crombie, Operations Director Completion Date: November 2017
5.3	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.	P2	Responsible Officer: Philip Barr, Managing Director Completion Date: July 2017
5.4	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.	P3	Responsible Officers: Paul Cathrow, Service Development Manager / Jen McPhail, Finance and Commercial Director Completion Date: September 2017
5.5	Balance Sheet Analysis and Cashflow Statements should be added to the routine reporting and Management Accounts developed to maximise transparency and comparability. Ratio analysis should be carried out.	P3	Responsible Officer: Jen McPhail, Finance and Commercial Director Completion Date: December 2017
5.6	Management should carefully consider what aspects of performance should be measured and how to measure them in order to deliver meaningful management information.	P3	Responsible Officers: Philip Barr, Managing Director / Lynne Crombie, Operations Director Completion Date: July 2017
5.7	Management should again request support from performance specialists within the Council to complete the Performance Framework.	P3	Complete

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