

REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 29 October 2015

BY: Chief Officer

SUBJECT: Financial Regulations for the IJB and the Creation of an Audit and Risk Committee

1 PURPOSE

- 1.1 The IJB is required to adopt a set of Financial Regulations; these define the financial roles and outline the financial governance for the IJB.
- 1.2 This report also lays out the Terms of Reference (TOR) for the East Lothian IJB Audit and Risk Committee and asks the IJB to nominate members for that committee.

2 RECOMMENDATIONS

- 2.1 The IJB is asked to adopt the financial regulations as laid out in Appendix I.
- 2.2 To delegate the responsibility for preparing the directives and instruction (to support the Regulations) to the Chief Finance Officer.
- 2.3 The IJB, having agreed to set up an audit and risk committee at its previous meeting is asked to agree the Terms of Reference of this committee and to appoint a chair and three other members.

3 BACKGROUND

- 3.1 A key element of financial governance is a clear set of financial regulations. The purpose and content of the regulations is laid out in the first section (Scope and Observance) – in summary:-

‘Section 95 of the Local Government (Scotland) Act 1973, requires all Integration Joint Boards (IJB) in Scotland to have adequate systems and controls in place to ensure the “proper administration of their

financial affairs”, including the appointment of an officer with full responsibility for their governance. These Financial Regulations detail the responsibilities of the Chief Finance Officer who has been appointed as the “proper officer” along with the responsibilities of the Chief Officer and Members of the IJB’

- 3.2 These regulations will be supported by a series of financial directives and instructions which are not yet completed. These will be at a more operational level and it is proposed that the responsibility for producing the directives be delegated to the Chief Finance Officer.
- 3.3 The IJB may revise the Financial Regulations at any time but any changes to the Regulations must be approved by the IJB.
- 3.4 It should be noted that the IJB does not employ any staff nor does it have a bank account. These Regulations can therefore be at a relatively high level.

4 POLICY IMPLICATIONS

- 4.1 IJB agreed at its meeting of 27 August 2015 that it would set up an Audit Committee. Best practice would suggest that such a committee’s role be expanded to address both Audit and Risk and therefore it is proposed to set up an Audit and Risk Committee.
- 4.2 Terms of reference for this committee are attached as appendix 2. In summary, the purpose of the audit committee is to provide independent assurance to IJB members of the adequacy of the risk management framework and the internal control environment. It provides independent review of East Lothian IJB’s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- 4.3 However, the management of risk is a key matter for the IJB and it is further proposed that regular risk management reports are presented to the IJB itself whilst the on-going scrutiny and consideration of the IJB’s risk register and the mitigation actions to manage these risks is undertaken by the Audit and Risk Committee.
- 4.4 The Audit and Risk committee will be formed of four IJB voting members (2 from Health and 2 from the Council) with the Chief Officer, Chief Finance Officer and the Chief Internal Auditor in attendance. The external auditors will be invited to every meeting. The Committee may add any further members or invite any officers from either the Council or the Health Board as it sees fit. The IJB will nominate these members.

- 4.5 The IJB will also nominate the chair of the of Audit committee. It should be noted that the chair of the audit committee cannot be the Chair or Vice Chair of the IJB.
- 4.6 The audit committee will decide its meeting frequency however it is recommended that it meets at least three times per annum and it is suggested that these meetings are either before or after the meetings of the IJB to simplify the logistical issues.
- 4.7 If required, appropriate training for members of the audit committee can be provided by the Chief Finance officer and the Chief Internal Auditor.

5 POLICY IMPLICATIONS

- 5.1 The relevant policy issues referred to in this report arise from the Public Bodies (Joint Working) (Scotland) Act 2014.

6 EQUALITIES IMPLICATIONS

- 6.1 There is no direct impact on inequalities arising from this report.

7 RESOURCE IMPLICATIONS

- 7.1 There are no additional resource implications arising from the content of this report.

8 BACKGROUND PAPERS

- 8.1 Reports to the IJB on 20 August 2015

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer (Designate)
CONTACT INFO	david.king@nhslothian.scot.nhs.uk
DATE	20 October 2015

Appendix 1

East Lothian Integration Joint Board

Financial Regulations Summary

INTEGRATION JOINT BOARD

FINANCIAL REGULATIONS

Item

1. [Scope and Observance](#)
2. [Framework for Financial Administration](#)
3. Integration Joint Board Responsibilities
4. [Corporate Governance](#)
5. [Delegated Authority](#)
6. [Review of Financial Regulations](#)
7. [Following the Public Pound](#)

1. **SCOPE and OBSERVANCE**

1.1 Section 95 of the Local Government (Scotland) Act 1973, requires all Integration Joint Boards (IJB) in Scotland to have adequate systems and controls in place to ensure the “proper administration of their financial affairs”, including the appointment of an officer with full responsibility for their governance. These Financial Regulations detail the responsibilities of the Chief Finance Officer who has been appointed as the “proper officer” along with the responsibilities of the Chief Officer and Members of the IJB. These Financial Regulations relate to the IJB.

1.2 The IJB has been delegated the responsibility for delivering a set of Health and Social Care functions by East Lothian Council and NHS Lothian. These functions are laid out in the IJB’s Integration Scheme. East Lothian Council and NHS Lothian will provide to the IJB financial resources in respect of these functions.

1.3 IJB will issue directions to the Council and to the Health Board in relation to the delivery of the functions delegated to the IJB through its Strategic Plan. The Council and the Health Board in following these directions shall ensure that their own financial regulations are fully observed. This is explicit in the directions that are issued by the IJB.

1.4 The IJB will not deliver any of the functions delegated to it itself, all operational delivery for delegated functions will be provided by East Lothian Council or NHS Lothian as directed by the IJB as above.

1.5 The Chief Finance Officer and Chief Internal Auditor will monitor and report on compliance with these regulations which apply to all members of the IJB whether voting or non-voting.

1.6 The IJB will ensure that only expenditure within the legal powers of the IJB is incurred or directed to be incurred. Where this is not clear, the IJB will consult the Chief Finance Officer prior to incurring such expenditure. Similarly, the legality of expenditure relating to new service developments, initial contributions to other organizations and responses to new emergency situations will also be clarified prior to any related expenditure being incurred.

2. **FRAMEWORK FOR FINANCIAL ADMINISTRATION**

2.1. The Financial Regulations detail the responsibilities of all members of the IJB. The Financial Regulations may only be amended by the IJB.

- 2.2 The Chief Finance Officer as the 'proper officer' for the proper administration of the Jib's financial affairs will oversee the operation of the Financial Regulations within the IJB and will provide to the Chief Officer and the other members of the IJB (whether voting or not) a written framework which governs the Council's financial affairs. The framework will consist of:

Financial Directives: These directives will cover all relevant aspects of financial administration and the Chief Finance Officer will have the delegated authority to alter the Financial Directives except for any matters which are covered by the Financial Regulations where Jib's approval will be required. Changes to the Financial Directives will be reported to the Jib's Audit and Risk Committee for their endorsement.

Financial Guidance Notes: These guidance notes will provide the IJB with detailed guidance and advice on specific procedures to be followed and any such guidance notes issued will require the prior approval of the Chief Finance Officer.

- 2.3 All Financial Directives and guidance notes issued in terms of these Financial Regulations are issued with the same status and authority as if they were contained within these Financial Regulations.

- 2.4 Accounting Policies and records

The Jib's accounting policies are governed by the appropriate local government Acts as directed and amended by Scottish Ministers.

The accounting records of the IJB will be held by East Lothian Council on behalf of the IJB.

- 2.5 Risk

The Chief Officer will be responsible for establishing the Jib's risk strategy and profile and developing the risk reporting arrangements, including a risk register. The risk management strategy will be approved by the IJB and reviewed by the IJB Audit and Risk Committee.

- 2.6 Insurance

The IJB will join the NHS CNORIS scheme which will provide the IJB with the appropriate insurance cover. This insurance scheme will only cover the IJB, its professional advisors and Council or NHS officers who have been requested by the IJB to provide specific advice or services to the IJB. NHS Lothian and East Lothian Council in delivering functions as directed by the IJB will ensure that the appropriate clinical and liability insurance is in place.

3. **INTEGRATION JOINT BOARD RESPONSIBILITIES**

3.1 The IJB and its Officers (Chief Officer and Chief Finance Officer) will continuously strive to secure best value and economy, efficiency, and effectiveness in their use of resources.

3.2 Chief Officer

The Chief Officer will provide a strategic leadership role as principal advisor to and officer of the Integration Joint Board and will be a member of the senior management teams of the Parties. The Chief Officer will lead the development and delivery of the Strategic Plan for the IJB and will be accountable to the IJB for the content of the directions issued to the Parties by the IJB and for monitoring compliance by the Parties with directions issued by the IJB.

3.3 Chief Finance Officer

The Chief Finance Officer will undertake the role as laid out in S95 of the 1973 Local Government (Scotland) Act and shall make arrangements for the proper administration of the Jib's financial affairs and as the proper officer of the IJB has responsibility for the administration of those affairs. The Chief Finance officer will discharge this duty by:-

- establishing financial governance systems for the proper use of delegated resources;
- ensuring that the Strategic Plan meets the requirement for best value in the use of the Jib's resources; and
- ensuring that the directions to NHS Lothian and East Lothian Council require that the financial resources are spent according to the allocations in the Strategic Plan.

3.4 Subject to the overarching responsibility of the IJB, the Chief Officer will be responsible for overseeing the IJBs financial and budgetary arrangements.

3.5 The Chief Finance Officer in consultation with the Chief Officer will advise the IJB and all its Committees on the financial implications of the IJB's activities. This will include the financial implications of the IJB's Strategic Plan which will be underpinned by a Financial Plan.

3.6 The responsibilities of the IJB and its Committees in relation to the conduct of the IJB's financial affairs are defined in the IJB's Standing Orders and Integration Scheme. In summary they are as follows.

3.7 IJB

- The IJB, on recommendations of the Chief Officer and the Chief Finance officer will approve all Revenue Budgets.
- The IJB will consider and approve any alterations to the Financial Regulations.

3.8 Chief Officer and Chief Finance officer

- These officers will develop and implement an operational policy within the IJB's approved budget and strategic policy framework.

- The officers will provide the IJB with appropriate financial assurance to allow the IJB to accept the opening budgets allocated by East Lothian Council and NHS Lothian.
- These officers will provide the IJB with appropriate financial assurance to allow the IJB to accept future year's budgets which will be allocated by East Lothian Council and NHS Lothian
- These officers will consider and recommend to the IJB for approval all Revenue Budgets and no expenditure can be authorised unless provided for in approved estimates.
- These estimates will be clearly detailed in the directions issued to the Council and the Health Board and neither of these parties may expend more than the approved estimate without the specific approval of the IJB.
- These officers will monitor the overall financial performance of the IJB's functions (as directed to either the Council or the Health Board) in relation to the approved Revenue Budgets.
- The Chief Finance officer will provide to the IJB regular budget monitoring reports along with explanations for any significant variances from budget and the remedial action planned.
- The IJB may hold reserves and the Chief Finance Officer will prepare a policy to hold and manage any such reserves which will be presented to the IJB for approval.

3.9 Management of budget variances

The Integration scheme lays out the arrangement for the management of variances within the IJB's operational budget – that is the resources that have been allocated to NHS Lothian and East Lothian Council to undertake the functions delegated. The Chief Officer and the Chief Finance officer will prepare and present to the IJB arrangements for the financial management of these variances. This will be laid out in the financial directives.

3.10 Chief Internal Auditor

A Chief Internal Auditor will be appointed by the IJB to act as the IJB Chief Internal Auditor. East Lothian Council and NHS Lothian will support the Chief Internal Auditor as they require per the Integration Scheme.

- The Chief Internal Auditor will report to the IJB's Audit and Risk Committee.
- The internal audit service will undertake work in compliance with the Public Sector Internal Audit Standards as defined within the Audit Charter.
- The Chief Internal Auditor will at the start of each financial year prepare an annual strategic risk based plan for the IJB and submit this for approval to the IJB's Audit and Risk Committee.
- The IJB Chief internal auditor will submit an annual audit report summarising the work undertaken by the Section over the year and provide an opinion on the adequacy of risk management, governance and internal controls. This will be presented to the

Chief Officer and the Audit and Risk Committee with responsibility for governance within the IJB See section 3.10 below).

- All internal audit reports for the IJB will be presented to the Chief Officer and the IJB's Audit and Risk Committee.
- The Chief Internal Auditor or their appointed representative (on production of identification) will have authority (as defined in the audit Charter) to access any data held on any site by either NHS Lothian or East Lothian Council that relates to the functions delegated to the IJB through the Integration Scheme.

However, the operational delivery of services by NHS Lothian and/or East Lothian Council as directed by the IJB will be covered by the respective internal audit arrangement of these bodies.

3.11 Audit and Risk Committee

The purpose of the Audit and Risk Committee is to provide independent assurance to the IJB of the adequacy of the risk management framework and the internal control environment. It provides independent review of the IJB's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

- The Audit and Risk Committee will endorse the annual Internal Audit Plan, and receive regular reports on these in accordance with the Internal Audit Reporting Calendar.
- The Committee will receive and review reports from the Chief Internal Auditor on audit activity and results of reviews.
- The Committee will review the risk register on a regular basis.
- The Committee will promote sound corporate governance, management of risk, and a robust internal control environment.
- The Committee will consider reports by the IJB's External Auditors, including reports on the audited annual accounts.
- The annual accounts of the IJB will be presented to the committee for review prior to the presentation to the IJB.
- The Committee will review and approve the Annual Governance Statement which will be presented for approval to the IJB.

3.12 Strategic Planning Group

- The IJB will set up a Strategic Planning Group which will prepare a Strategic Plan as directed by the 2014 Public Bodies (Joint Working) Act and subsequent regulations.
- This Strategic Plan will include a financial plan (and any other financial information as directed by regulations). The Chief Finance Officer will support the production of this financial plan in line with these financial regulations.
- The IJB will approve the Strategic Plan and the resources committed by it to delivering the functions delegated to the IJB as laid out in the most recent Integration Scheme.

3.13 Directions to the Council and to the Health Board

The Public Bodies (Joint Working) Act 2014 lays out in sections 27 to 28 that an IJB will give directions to a constituent authority to carry out the functions delegated to that IJB. The provenance for these directions being the IJB's agreed Strategic Plan. Directions must specify the payment to be made (or the element of the set aside budget to be used as appropriate) and to regulate the manner in which the function is carried out.

- The IJB will agree a policy and a format for directions made as above.
- Directions will flow from the IJB's approved Strategic Plan.
- Directions will be authorised by the Chief Officer or, in the absence of the Chief Officer by the Chief Finance Officer.
- All directions will be reported to the IJB at least annually.

4. CORPORATE GOVERNANCE

4.1 The public sector has adopted Corporate Governance principles which, in the context of an IJB, are about how it conducts its business and relates to its community. Corporate Governance is about openness, integrity and accountability.

The six principles of Corporate Governance are:

- Focusing on the purpose of the IJB and on outcomes for the community and creating and implementing a vision for the area.
- Members and Officers of the IJB working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the IJB and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of Members and Officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

4.2 The IJB is expected to demonstrate that its local Code of Corporate Governance is available to be viewed by all stakeholders, partners and members of the public. Audit Scotland expects the IJB to have robust Corporate Governance procedures in place. A code of Corporate Governance will be prepared and agreed by the IJB.

4.3 The Local Code of Corporate Governance is approved by the IJB and scrutinised by the Audit Committee. The IJB will receive an annual report from the Chief Officer on compliance with the Code and whenever the Code requires to be updated.

4.4 The annual report coincides with the publication of the Annual Accounts and Performance Information, which will include an Annual Governance Statement, signed by the Chief Officer and the Chair of the of the IJB.

4.5 The basis of the Annual Governance Statement will be an overview and opinion on the IJB's arrangements contained in the approved Local Code.

4.6 The IJB will submit an Annual Performance report every year as laid out in regulations. This will be prepared by the Chief Officer and presented to the IJB for approval prior to submission.

5. DELEGATED AUTHORITY

5.1 Through its directions to the Council and the Health Board (as appropriate), the IJB will delegate financial resources for the delivery of

the functions that have been delegated to the IJB. The Council and the Health Board will apply their own financial regulations as part of the undertaking of any direction issued by the IJB.

- 5.2 The Health Board and the Council may not, without the specific approval of the Chief Finance officer vire funds between individual directions unless there is a specific protocol for financial risk management agreed as part of the direction.
- 5.3 If a protocol for financial risk management is drawn up between the IJB and the Council or the Health Board (as appropriate) and/or between the IJB and other IJBs, then this will be agreed by the IJB prior to the direction being issued.

6. **REVIEW OF FINANCIAL REGULATIONS**

- 6.1 These Financial Regulations may be varied or revoked by the IJB and any variation or revocation will be effective from the first working day after the conclusion of the IJB meeting at which it was approved.

7. **FOLLOWING THE PUBLIC POUND**

- 7.1 Current guidance for Local Authorities where funding is provided by one partner to another body to deliver services which would otherwise be provided by the funder, requires arrangements to be in place to maintain control and clear public accountability over the public funds. This will apply in respect of:
 - the resources delegated to the Integration Joint Board by the Local Authority and Health Board; and
 - the resources paid to the Local Authority and Health Board by the Integration Joint Board for use as directed and set out in the Strategic Plan.
- 7.2 The IJB will follow best practice principles as set out in the Code of Guidance on Funding External Bodies and Following the Public Pound and this will be incorporated into the directions made by the Integration Joint Board.

EAST LOTHIAN INTEGRATION JOINT BOARD

AUDIT AND RISK COMMITTEE TERMS OF

REFERENCE

INTRODUCTION

1. The Audit and Performance 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. The Committee will be a Standing Committee of the IJB.
2. The Financial Regulations for the IJB were approved Integration Board on 29th October 2015. Section 3.10 of the Financial Regulations state that the IJB will have an Audit and Risk Committee

CONSTITUTION

3. The IJB shall appoint the Committee. The Committee will consist of (at least) four members of the IJB, excluding professional advisors. At least four Committee members must be IJB voting members, 2 from the Health Board and 2 from the Council

Membership of the committee will be for three years and may be extended by the IJB.

4. The Committee may at its discretion set up working groups for review work.
Membership of working groups 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 and Risk Committee.

CHAIR

5. The Chair of the Committee will be a voting Member nominated by the IJB, noting that the Chair or Vice Chair of the IJB cannot also chair the Audit and Risk Committee.

QUORUM

6. Three Members of the Committee will constitute a quorum.

ATTENDANCE AT MEETINGS

7. The Chief Officer, Chief Finance Officer, Chief Internal Auditor and other professional advisors or their nominated representatives will normally attend meetings. Other persons shall attend meetings at the invitation of the Committee.

8. The external auditor will be invited to all meetings.

MEETING FEQUENCY

9. The Committee will meet at least three times each financial year.

AUTHORITY

10. The Committee is authorised to request reports and make recommendations to the IJB for further investigation on any matters which fall within its Terms of Reference.

DUTIES

11. The Committee will review the overall internal control arrangements of the IJB and make recommendations to the Board regarding signing of the Governance Statement.
12. Specifically it will be responsible for the following duties:

GOVERNANCE, RISK AND CONTROL

1. To review the IJB's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
2. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the IJB framework of governance, risk management and control.
3. To consider the IJB arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4. To consider the IJB framework of assurance and ensure that it adequately addresses the risk and priorities of the IJB.
5. To monitor the effective development and operation of risk management in the IJB.
6. To monitor progress in addressing risk-related issues reported to the committee.
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

INTERNAL AUDIT

8. To approve the internal audit charter.
9. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
10. To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
11. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
12. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitation.

13. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
14. To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the IJBI's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the Annual Governance Statement.
15. To consider summaries of specific internal audit reports as requested.
16. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
17. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
18. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.
19. To support the development of effective communication with the head of internal audit.

EXTERNAL AUDIT

20. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
21. To consider specific reports as agreed with the external auditor.
22. To comment on the scope and depth of external audit work and to ensure it gives value for money.
23. To commission work from internal and external audit.
24. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

FINANCIAL REPORTING

25. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the IJBI.
26. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

ACCOUNTABILITY ARRANGEMENTS

27. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
28. To report to the IJB on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.