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Sefton PCT

Internal Audit Annual Plan 2007-08

Private and Confidential

Prepared by:

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Date:

February 2007

1. Introduction

Opinion Delivery

The Audit Plan has been developed in accordance with Department of Health and Monitor guidance. This guidance acknowledges the wider control framework while ensuring financial control remains subject to appropriate coverage. In accordance with the requirements of the Audit Committee Handbook the plan covers the two key roles of internal audit:

- The provision of an independent and objective opinion to the Accountable Officer, the Board, and the Audit Committee on the degree to which risk management, control and governance support the achievement of the organisations agree objectives.
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk arrangement, control and governance arrangements.

Additionally, we will conduct our audits in accordance with the mandatory standards and good practice guidance contained within the NHS Internal Audit Standards adopting MIAA's Quality System Documentation.

The Internal Audit Plan is structured to meet the mandated requirements and provide the Director of Audit's Opinion which will subsequently contribute to the Board's completion of the Statement on Internal Control (SIC). The Opinion may also be taken into account by the Healthcare Commission in the conduct of its work under the Standards for Better Health. Table 1 below summarises the requirements.

Table 1 – Opinion Defined

The components of the Director of Audit's Opinion:

- an assessment of the design and operation of the underpinning Assurance Framework and associated processes;

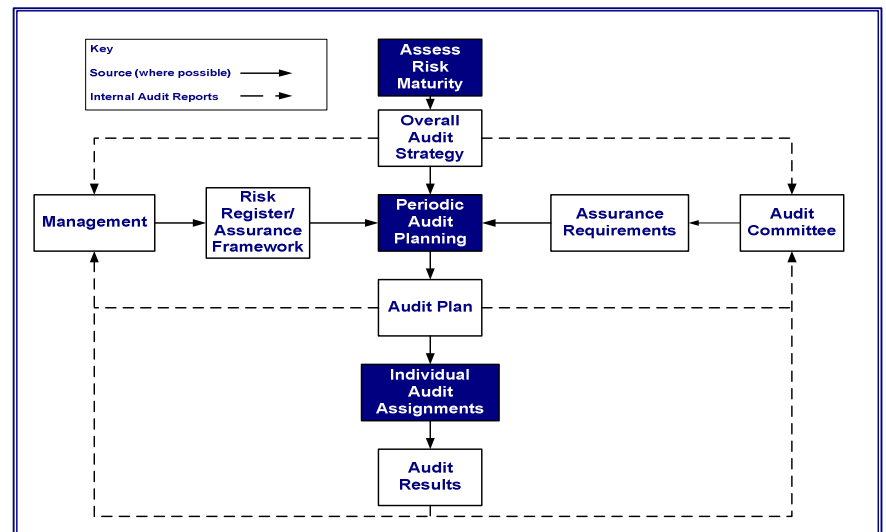
Level of Assurance
Overall Assurance Level

- an assessment of the range of individual opinions arising from risk based audit assignments, contained within internal audit risk based plans that have been reported throughout the year;
- an assessment of the process by which the organisation has arrived at its declaration in respect of the Standards for Better Health;
- any reliance being placed on third party assurances

Overall Assurance Level

Our audit plans are based on a risk assessment approach built around discussions with senior staff and non executives and linked to the organisations Assurance Framework.

Figure 1 details MIAA's approach to development of the plan.



Assessment of the organisations Risk Maturity (this is an overview of the governance, risk management and assurance processes).

- Periodic audit planning (annual plan that is developed from the Assurance Framework).
- Discussions with Board members interrelated with an understanding of the Audit Committee Assurance requirements.
- Final stage of setting the scope and objectives for individual assignments.
- The plan detailed in the body of this document has been constructed to meet the requirements of the Director of Audit Opinion.

Audit Approach 2007/08

As part of the ongoing development of the internal audit services provided by MIAA, the assurance processes which will be applied to the 2007/08 work have been refined. Reviews will be completed to report on an exception basis i.e. focusing on the issues and risks identified, applying the following definitions.

Assurance Levels

Level of assurance	Description
High	<i>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</i>
Significant	<i>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur.</i>
Limited	<i>There are weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of the key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives.</i>
No	<i>There are weaknesses in the design and/or operation of controls which [in aggregate] have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisational objectives.</i>

Risk Classification

The issues identified will be categorised according to risk as follows:

Risk rating	Assessment rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

This approach will facilitate the managements and the Audit Committees focus on the key issues identified from our work.

2. Annual Plan, Risk Assessment and Fees

Risk Assessment

In completing your risk assessment, we have taken into account your overall governance and risk management arrangements and have undertaken a detailed review of the Assurance Framework in conjunction with interviews with key officers. The high level risks identified are documented in the relevant Appendices A 'PCT as Commissioner' and B 'Provision of Services'.

Plan and Coverage

Based upon key elements of the corporate challenges facing your organisation and the risk assessment, an audit plan has been constructed to reflect the role of the organisation distinguishing between the roles of 'PCT as Commissioner', Appendix A and 'PCT Provision of Services' Appendix B. The focus of the plan is to review gaps in assurances as directed by management, meet mandated requirements and ensure effective coverage of systems through liaison with External Audit. Following agreement to the plan a schedule of the timing of the audit reviews will be provided in the Internal Audit Progress Report.

Liaison with your External Auditors will take place to ensure maximum benefit is derived from your total audit resource. It should be recognised that External Audit may place a requirement on you to commission additional work relating to the documentation of systems to meet the revised International Auditing Standards. This work could be undertaken by Internal Audit however this issue should be resolved between external auditors and the Audit Committee.

Fees and Charges

The fees quoted within this plan are based upon the skill mix required to deliver the proposed coverage. Any input required in addition to the plan in respect of special investigations or departmental reviews will be charged in accordance with the skill mix required to deliver the work.

All such work will be agreed with the relevant Director prior to commencement.

Fees and Charges Internal Audit Assurance (£)

<i>Plan Split</i>	<i>Appendix</i>	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>
<i>PCT as Commissioner</i>	<i>A</i>	<i>76,302</i>	<i>89,466</i>	<i>78,176</i>
<i>Provision of Services</i>	<i>B</i>	<i>-</i>	<i>-</i>	<i>20,910</i>

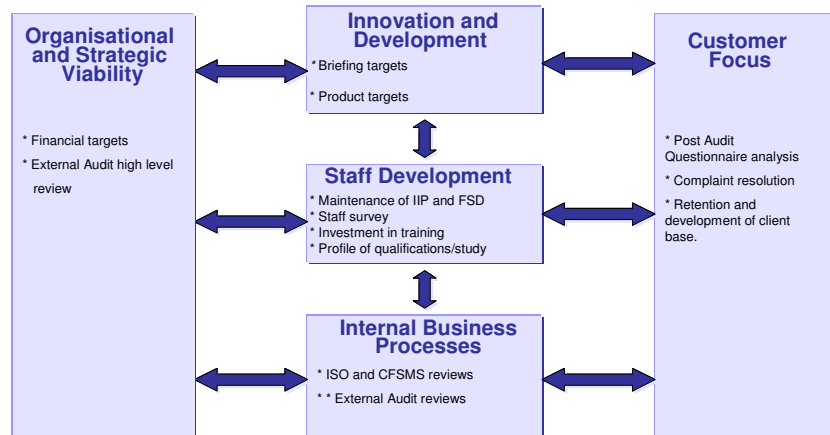
The fees above reflect the 2.5% uplift in respect of the daily rate applied to the Risk Based Programme of work.

3. Providing Your Quality Service

Balanced Assurance

In order to demonstrate to our clients the quality of the service delivered by MIAA assurance will be provided within the 2007/08 annual reports in accordance with the measures outlined in the balanced scorecard (Figure 2).

Figure 2 Balanced Scorecard



Each element represents a measure currently monitored within MIAA in addition to the external evaluations of our business and professional practice.

Staffing

In the performance of your audit we have tried to maintain a balance between having consistency in the staff working on your contract whilst introducing new staff with experience of working in other organisations. We have found this to be a very effective method of operating which has enabled our staff to develop familiarity and experience of your financial systems and the specific issues you face and has provided your staff with recognised points of contact with whom they can discuss audit issues.

MIAA have developed robust management arrangements for the delivery of your audit. The work will be delivered by a team led by Keith Bowman the **Senior Audit Manager**. In addition, you retain access to Tim Crowley, **Director**; Steve Connor, Deputy Director and Cath Hill, Assistant Director for support and advice. Functional support is provided by Tony Cobain Head of IM&T, Steve Wood Head of Capital / PFI.

2007/2008 Annual Plan – PCT as Commissioner

One of the key tasks facing PCTs within the current climate is to develop the skills, competencies and frameworks that will enable them to commission effectively. This includes (but is not limited to) developing: The skills and competencies of Boards and Senior Management Teams which enable them to deliver a new agenda

- Governance Frameworks which reflect a commissioning focus to a much higher degree (and include all commissioning activity)
- Internal structures which enable commissioning to be undertaken synergistically and effectively
- Systems and Processes which provide assurance on the nature, type and quality of services commissioned (reflective of national requirements)

It was evident that the following top level challenges/risk areas face the organisation in the financial year:

Generic Risks:

- Achievement of financial probity and balance.
- Ongoing development and update of the Assurance Framework
- Implementation of 'Fit for Purpose' development plans.
- Compliance with the Standards for Better Health.
- Compliance with the information governance agenda, connecting for health and integration of the systems.
- Production of robust information / performance management data.

Commissioner Specific Risks:

- Development of integrated governance
- Establishment of robust partnership arrangements to deliver strategic objectives
- Changes to contractor service arrangements
- Development of commissioning (including Practice Based Commissioning)
- Ongoing implementation of shared service arrangements
- Changes to the capital funding and regime

Outputs	Review Source	Risk
ASSURANCE FRAMEWORK AND ASSOCIATED PROCESSES		
<p>Assurance Framework - Opinion – In accordance with the Department of Health requirements Internal Audit are required to review the overall arrangements for gaining assurance. An assurance Framework report will be completed towards the end of the financial year.</p> <p>Risk Maturity - Organisational - A report will be provided to the organisation on the overall risk maturity in accordance with the definitions provided by the Institute of Internal Auditors.</p> <p>Public and Patient Involvement / Oversee Scrutiny Committee - A report will be provided evaluating the adequacy and effectiveness of overall arrangements in place within the PCTs.</p> <p>Strategic Partnerships – A report will be provided on the Governance arrangements for identifying and developing across organisation strategic partnerships.</p> <p>Monitoring and Performance Management of Arms length / 3rd party service provision FHS contract implementation: Ophthalmic Performance monitoring measures: Evaluation of the overall approach to Quality & Outcomes Framework including</p>	<p></p> <p></p>	<p>The organisation may not identify strategic risks resulting in a failure to achieve organisational objectives. Failure of the organisation to comply with mandatory requirements.</p> <p>Ineffective Governance arrangements will fail to identify risk in relation to services provided to the PCT under remote arrangements and /or non NHS organisations.</p>
		66

KEY

Mandated Role for Internal Audit

Assurance Framework

Management Request

Outputs	Review Source	Risk	
information, reporting and review programme. Post payment verification: QOF 5%, Dental, Ophthalmic Other models Limited Company, Charitable sector etc			
STANDARDS FOR BETTER HEALTH			7
<u>Standards For Better Health - Review</u> – A report will be provided to give a view on the method by which the organisation has arrived at its conclusions regarding the March 2008 declaration on the Standards.	☰	Failure to develop appropriate systems and processes to support the signing of the declaration.	
RISK BASED REVIEWS – CORPORATE RISK AREAS			123
<u>Commissioning:</u> Evaluation of the local measures applied by the PCT to commission healthcare in accordance with strategic objectives. To include Governance and local reporting arrangements across Commissioning of Specialist Health services.		Inadequate or ineffective arrangements to deliver the strategic objectives of the PCT	
<u>Corporate Reporting</u> - Board Reporting in respect of Corporate objectives including, HR, CNST, Health & Safety, Complaints etc		Lack of appropriate information, unreliable systems to collate and present to Board with accurate information required to make effective strategic decisions.	
<u>Payment By Results</u> – Evaluation of measures applied to monitor and validate payments made in respect of services delivered by service providers. To include local arrangements to interface with Lead Providers and Cheshire & Mersey Contracting Unit		Inefficient use of resource and/or ineffective performance management of resource	
The delivery / scope of the review is to be deferred pending the Audit Commission review.			
<u>Practice Based Commissioning - Governance</u> - Review of Governance, set up and delivery mechanisms established to ensure that PbC is being managed effectively.		Ineffective commissioning. Failure to progress greater devolution, improve clinical services and “free up” resource.	
<u>Contingency Plans - Public Health</u> - A report will be provided evaluating the effectiveness of internal contingency plans.		Failure to be able to respond to public health emergency.	
<u>Human Resources</u> – An evaluation of the effectiveness of the transactional controls applied by Human Resources.		ineffective control of transaction input / process can impact on work management information and payroll payments.	
<u>Mental Health:</u> A report will be provided detailing an evaluation of the arrangements established for service delivery and performance monitoring across the local health economy.		Ineffective control of development of cross economy delivery model and delivery of service may lead to clinical risk, budgetary pressure and financial balance.	

KEY

☰ Mandated Role for Internal Audit

☰ Assurance Framework

🧠 Management Request

Outputs	Review Source	Risk	30
<p>Information and Communication – Description = TC to provide</p> <p>Capital – Governance and reporting arrangements incorporating programming and delivery of LiFT schemes</p> <p>Health Funded Nursing Care: Evaluation of system controls to ensure effective links between commissioning and finance to support effective planning and forecasting of expenditure.</p>		<p>In context of the Commissioner delivering robust information systems to support effective PPI engagement.</p> <p>Cost pressures outside the control of the PCT are not adequately accounted for as part of the financial planning and monitoring arrangements.</p>	
RISK BASED REVIEWS – FUNDAMENTAL FINANCIAL SYSTEMS			30
<p>Financial Performance & Reporting - Board Reporting, Budget Monitoring, Cash Management, Balance Sheet and Reserves, Impact of PbR</p> <p>Financial Ledger – Evaluation of system controls operating to maintain accuracy and timeliness of ledger information.</p> <p>Payroll – To provide assurance in respect of the systems and processes operating to ensure the payroll expenditure incurred is valid and accurate in accordance with contracts of employment and the direct establishment of the PCT. The review will also evaluate the controls applied by the Trust in response to the NHS Pension Scheme regulations. In evaluation these control consideration will be given to prevention / detection of fraud.</p>	 	<p>Ineffective financial management which does not provide a sound basis for delivering better healthcare.</p> <p>Achievement of financial balance will be undermined if the ledger does not provide complete financial data in a timely manner</p> <p>Additional expenditure may be incurred as a result of ineffective validation of variation to the payroll system and recharge mechanisms.</p>	20
FOLLOW-UP REVIEW AND CONTINGENCY			20
<p>Follow-up will be conducted throughout the year to provide the Audit Committee with assurance regarding management's implementation of agreed actions.</p> <p>Contingency – This element of the plan allows the flexibility to respond to management requests in order to meet specific client needs during the course of the financial year.</p>	 	<p>Recognising that the audits are performed on a risk basis, failure to appropriately implement agreed actions could result in limitations to the assurance provided.</p> <p>It is a requirement of the NHS Internal Audit standards to reserve an allocation of contingency time in order to avoid changes to the risk based plan.</p>	
AUDIT COMMITTEE SUPPORT AND MANAGEMENT			20
<p>In providing an internal audit service an allocation of time is required for the management of the contract incorporating preparation and attendance at Audit Committee; completion of risk assessment and planning; liaison with the client and organisation of the audit reviews. Key reports will be provided to support this, such as the Director of Audit Opinion and Annual Report, Annual Plan and Interim Update Reports.</p>			

KEY



Mandated Role for Internal Audit




Assurance Framework





Management Request

Outputs	Review Source	Risk
TOTAL DAYS		266

KEY

 Mandated Role for Internal Audit

 Assurance Framework

 Management Request

2007/2008 Annual Plan – PCT Provision of Services

For those responsible for the development and delivery of provider arm services there is also a need to rapidly and effectively develop more autonomous internal governance frameworks and to ensure that the services are fit for purpose. Provider services (of any kind) need to be in a position to demonstrate the safety and quality of the services provided; need to be able to respond to commissioning directives and need to develop innovative services in collaboration and partnership where appropriate and desirable.

During this time, MIAA has been working with the PCT across a range of different aspects at both commissioner and provider level. Furthermore, MIAA has also been working closely with a number of other PCTs who themselves are having to respond to the challenges brought about by such drivers. In particular, MIAA is able to offer support to both the PCT (as commissioner) and the provider arm services to build on existing arrangements and to facilitate the modernisation of governance systems which meet both the emergent and future needs of the organisation. The reason for separately identifying internal audit coverage and support is the anticipation of the need for greater distinction of risk systems and assurance to the PCT as provider of service. Liaison and reporting will remain unchanged.

For both PCT and Provider arm the challenges brought about by such policy initiatives are considerable. MIAA is able to support the PCT / Provider across a range of aspects of this process.

It was evident that the following top level challenges/risk areas face the organisation in the financial year:

Generic Risks:

- Achievement of financial probity and balance.
- Ongoing development and update of the Assurance Framework
- Implementation of 'Fit for Purpose' development plans.
- Compliance with the Standards for Better Health.
- Compliance with the information governance agenda, connecting for health and integration of the systems.
- Production of robust information / performance management data.

Provider Service Specific Risks

- Clarity / development of Governance arrangements for:
 - provider services and 'rules of engagement';
 - Integration with Commissioning Framework; and
- Contestability' of Provider Services
- Locality Services: Support, Development and Review of fundamental systems
- Complying with Patient Lead NHS.
- Preparation for greater managerial separation.






Outputs	Review Source	Risk	Days
STANDARDS FOR BETTER HEALTH			6
<u>Standards for Better Health - Review</u> - Review of arrangements to integrate self assessment across the range of services provided, reporting and review mechanisms and the interface with the relevant Commissioning forum		Failure to develop appropriate systems and processes to support the signing of the declaration.	
RISK BASED REVIEWS – CORPORATE RISK AREAS			24
<u>Service Performance & Reporting</u> - Reporting in respect of Corporate objectives including, HR, CNST, Health & Safety, Complaints etc		Lack of appropriate information. unreliable systems to collate and provide 'Overseeing Committee' to demonstrate delivery of corporate objectives and assurance to the	

KEY


Mandated Role for Internal Audit

Assurance Framework

Management Request

Outputs	Review Source	Risk	Days
<p>Service Business Planning & 'Contestability' - A programme of systems based reviews to support the delivery of Provider services and enable contestability to be demonstrated; eg, Management Information, Financial Planning and reporting, HR planning and monitoring arrangements, etc</p>		<p>Commissioning body</p> <p>Ineffective control surrounding the delivery of services may lead to increased budgetary pressure and risk financial balance.</p>	
RISK BASED REVIEWS – FUNDAMENTAL FINANCIAL SYSTEMS			35
<p>Budget Monitoring - 'Contestability':– Evaluation of measures applied to establish budgets, monitor and manage against budget throughout the 'service unit'</p> <p>Locality Programmes</p> <ul style="list-style-type: none"> Core systems & interface with PCT Information Flows Non Pay Expenditure, requisitioning, ordering, Inventory etc Overall system of control for the ordering, receiving and securing of IT equipment. 	<p></p> <p></p>	<p>Ineffective control of delivery of service may lead to increased budgetary pressure and risk financial balance.</p> <p>Ineffective administration of systems in operation to administer service provision at locality level may undermine the accuracy and reliability of key performance/financial management information collated centrally for the PCT.</p>	
FOLLOW-UP REVIEW AND CONTINGENCY			10
<p>Follow-up will be conducted throughout the year to provide the Audit Committee with assurance regarding management's implementation of agreed actions.</p> <p>Contingency – This element of the plan allows the flexibility to respond to management requests in order to meet specific client needs during the course of the financial year.</p>	<p></p> <p></p>	<p>Recognising that the audits are performed on a risk basis, failure to appropriately implement agreed actions could result in limitations to the assurance provided.</p> <p>It is a requirement of the NHS Internal Audit standards to reserve an allocation of contingency time in order to avoid changes to the risk based plan.</p>	
AUDIT COMMITTEE SUPPORT AND MANAGEMENT			10
<p>In providing an internal audit service an allocation of time is required for the management of the contract incorporating preparation and attendance at Audit Committee; completion of risk assessment and planning; liaison with the client and organisation of the audit reviews. Key reports will be provided to support this, such as the Director of Audit Opinion and Annual Report, Annual Plan and Interim Update Reports.</p>	<p></p>		
TOTAL DAYS			85

KEY

 Mandated Role for Internal Audit

 Assurance Framework

 Management Request

POTENTIAL AREAS FOR ADDITIONAL SUPPORT SUBJECT TO SEPARATE DISCUSSIONS**PCT AS A COMMISSIONER**

Assurance Framework - Support – Support to integrate the assurance framework with the new standards, performance management arrangements and risk management processes.

Standards For Better Health - Development of Compliance – Description e.g. briefings etc

IT Inventory - Control – Assurance on the outcome of an evaluation of the system operating re: ordering, receipting and recording of IT equipment.

PCT PROVISION OF SERVICES**Assurance Framework - Directorate and Departmental Assurance Mechanisms**

- Support in the development of directorate frameworks to identify risks and support integrated Assurance to the Board
- Complaints: Collation, reporting and monitoring
- Links to Register of Interests, Hospitality reporting, dealing with Commercial Organisations

Assurance Framework - Support – Support to integrate the assurance framework with the new standards, performance management arrangements and risk management processes.


Governance Arrangements - Development Workshops - With Provider Leads to review and critically assess governance and define / Enhance Service Specifications


Probity - Training Programme to deliver presentation and training to Locality staff re probity and core systems administration on Governance, Audit and key operational controls to be applied.


Standards for Better Health - Development of Compliance With The Standards – Support to assist in complying with the developmental areas of the standards e.g. briefings etc

Clinical Audit Programme- Support in development / delivery of tailor-made programmes. Refer local programme agreed.

KEY

 Mandated Role for Internal Audit

 Assurance Framework

 Management Request