

Final Internal Audit Report

Outcomes Based Commissioning

May 2017

Distribution:

- Executive Director, People (Final Only)
- Executive Director, Resources (Final Only)
- Director of Finance, Investment and Risk
- Director of Commissioning and Improvement
- Director of Adult Social Care & 0-65 Disability & SEN
- Adult Social Care & 0-65 Disability & SEN
- Head of C&I Adults Health and Integration
- OBC Finance Lead
- Category Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	5
	Priority 3	0

Status of our reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of the London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of the London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

On 29 September 2014, Cabinet agreed to proceed with further work on an Outcomes-Based Commissioning approach in relation to health and social care for over 65s in Croydon.

On 12 December 2016, an update report was presented to Cabinet which confirmed that the Outcomes Based Commissioning project would proceed in two phases: (1) award of an Alliance Agreement, and award of an 'in-scope' Service Contract from around 1 April 2017; and (2) the commencement of a fully developed risk and benefit share mechanism into the Alliance Agreement from 31 March 2018. The formation of the Alliance is being co-ordinated by a Council and NHS jointly-appointed Programme Director.

It is intended Year 1 of the arrangement will go-live on 1 April 2017, with the Alliance Agreement being executed on or before 13 April 2017. Officers intend to seek final approvals in respect of key documentation at the internal OBC Governance Board schedule on 12 April 2017.

The focus of this audit has been in relation to Council-side governance arrangements, and how Commissioners intend to manage relationships, rather than the formation of the Alliance itself.

This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. Key Issues

Priority 2 Recommendations
Terms of Reference to internal Boards and Groups have not all been produced and agreed. (Rec. 1)
The internal OBC Governance Board's role in influencing the Council's vote at Alliance Board meetings, and reporting arrangements, is not clear in the draft Terms of Reference. (Rec. 2)
The roles and responsibilities in respect of the Integrated Management Team responsible for operational performance management have not been defined in a Terms of Reference. (Rec. 3)
The draft Council Service Level Agreement between the Commissioner and Provider functions has not yet been agreed by the OBC Governance Board. The Service Level Agreement requires further clarification in respect of financial monitoring and budgetary control. (Rec. 4)
It is intended that the Alliance Board will report to the Local Transformation Chief Executives Group. The Council has not yet received a copy of the Terms of Reference for this group. (Rec. 5)

3. **Actions and Key Findings/Rationale**

Control Area 1: Governing Bodies and Boards (including conflicts of interest)							
Priority	Detailed Finding/Rationale						
2	<p>The Council's internal governance structure includes provision for: (a) an OBC Council Governance Board; (b) an OBC Cabinet Member Project Group; (c) an OBC Demand Management and Finance Group; and (d) an OBC Performance Management Group.</p> <p>We were informed that Terms of Reference are in the process of being produced or finalised and it is hoped these will be agreed at the first meeting of each Board or Group following the go-live date on 1 April 2017.</p> <p>There is a risk responsibilities may be unclear and that accountability for decisions may therefore be diminished.</p>						
Management Response							
Terms of reference agreed following signing of alliance agreement.	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of Adults Health and Integration</td> <td>Implemented</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of Adults Health and Integration	Implemented
Agreed/Disagreed	Responsible Officer	Deadline					
Agreed	Head of Adults Health and Integration	Implemented					

Control Area 1: Governing Bodies and Boards (including conflicts of interest)	
Priority	Recommendation 2
2	<p>Consideration should be given to documenting to what extent votes taken at the internal OBC Governance Board are advisory only in respect of the Executive Director of People's voting powers at the Alliance Board.</p> <p>Where voting at the Alliance Board is contrary to advisory internal Governance Board recommendations, the Executive Director of People should be required to report back to the OBC Governance Board providing a rationale for each decision.</p> <p>Consideration should be given to the Executive Director of Resources (or a deputy) attending Alliance Board meetings as a non-voting member and providing impartial reports on decisions back to the internal OBC Governance Board.</p>
	<p>Detailed Finding/Rationale</p> <p>As part of the Alliance Agreement between different organisations delivering the Outcomes Based Commissioning Project, an Alliance Board will be formed. This Board has unanimous voting mechanism, under which the Council has one vote. This vote is shared between two individuals in most circumstances representing the Council Commissioner and Provider, which is held by the Executive Director of People, and the Director for Adult Social Care respectively. In other circumstances, the Alliance Board may make commissioner-only decisions.</p> <p>As part of the Council's internal governance arrangements, an OBC Governance Board has been created. This Board oversees the Council's internal decision-making in respect of the Outcomes Based Commissioning project, and includes the Executive Director of People, Executive Director of Resources and the Director of Commercialism, Commissioning and Improvement in attendance.</p> <p>There is a potential risk that the Executive Director of People may face a conflict of interest between representing a Commissioner and also a Provider as part of her day-to-day line management role. It is therefore intended by Officers that co-ordination of voting intentions will be discussed at the internal OBC Governance Board prior to decisions being made at the Alliance Board to ensure alignment with the Council's strategic objectives as a whole.</p> <p>However, there is currently no documented dispute resolution process in the event that a unilateral decision is made to vote at the Alliance Board in a manner that is not consistent with decisions made at the internal OBC Governance Board.</p> <p>There is a risk the Council's strategic objectives may not be met.</p>
Management Response	<p>Agreed/Disagreed</p> <p>Agreed</p>
	<p>Responsible Officer</p> <p>Head of Adults Health and Integration</p>
	<p>Deadline</p> <p>Implemented</p>

Control Area 2: Proposed Performance Monitoring Arrangements			
Priority	Recommendation 3	Detailed Finding/Rationale	
2	Council Commissioners should request that Integrated Management Team roles and responsibilities are documented as soon as possible and prior to the go-live date of 1 April 2017 if practicable.	<p>The Alliance Governance structure includes an 'Integrated Management Team' work-stream.</p> <p>It is intended that the Council will report findings in respect of its internal contract management activity through to this team, and alongside the Croydon CCG, influence day-to-day delivery of services.</p> <p>However, we were informed that a Terms of Reference or statement setting out roles and responsibilities in respect of the Integrated Management Team is not yet available.</p> <p>There is a risk that contract management information collected by Council-side Commissioners may not effectively influence the delivery of services co-ordinated by the Alliance.</p>	
Management Response		Agreed/Disagreed	Responsible Officer
The Integrated Management Team has yet to be set up by the Alliance, but this will be done during the set up process.		Agreed	Head of Adults Health and Integration
		Deadline	September 2017

Control Area 3: Form of Draft Contract and Contract Conditions (including proposed change management process)			
Priority	Recommendation 4	Detailed Finding/Rationale	
2	<p>The Service Level Agreement should be tabled for discussion and decision at the next internal OBC Governance Board.</p> <p>The budget and financial monitoring diagram in the Service Level Agreement (figure 5) should be updated to show which individuals are responsible for Commissioner and Provider budgets. Mechanisms in place to provide challenge regarding expenditure should be documented.</p>	<p>Seeking approvals for key governance documents helps ensure roles and responsibilities are known and that responsibility for identifying sub-standard performance or issues has been documented.</p> <p>We were informed that although the Service Level Agreement in respect of the Commissioner and Provider functions was tabled for discussion at a 21 March 2017 meeting of the internal OBC Governance Board, unequivocal approval of it was not received.</p> <p>The Service Level Agreement includes a diagram showing the Executive Director of People as the individual at the top of the Provider hierarchy which is contrary to the Alliance Board voting mechanism, where the Executive Director of People is the Council-side Commissioner representative.</p> <p>There is a risk that roles and responsibilities in respect of the Council-side Provider function and budget monitoring will be unclear and that sub-standard performance will not be identified as a result.</p>	
Management Response		Agreed/Disagreed	Responsible Officer
This has been completed.		Agreed	Head of Adults Health and Integration
		Deadline	Implemented

Control Area 4: Proposed Management Reporting Arrangements			
Priority	Recommendation 5	Detailed Finding/Rationale	Deadline
2	Council Commissioners should request that the Local Transformation Chief Executives Group Terms of Reference is made available as soon as possible.	<p>The Alliance Board governance structure indicates that reporting to the 'Local Transformation Chief Executives Group' will occur.</p> <p>The Council has not yet received a copy of the Terms of Reference for this group and its remit and membership is therefore unknown.</p> <p>There is a risk that performance management arrangements will be implemented that are not acceptable to all parties involved.</p>	June 2017
Management Response		Agreed/Disagreed	Responsible Officer
The request has been made.		Agreed	Head of Adults Health and Integration

TERMS OF REFERENCE

Outcomes Based Commissioning

1. INTRODUCTION AND BACKGROUND

- 1.1 On 29 September 2014, Cabinet agreed to proceed with further work on an Outcomes-Based Commissioning approach in relation to health and social care for over 65s in Croydon.
- 1.2 On 12 December 2016, an update report was presented to Cabinet in which confirmed that the Outcomes Based Commissioning project would proceed in two phases: (1) award of an Alliance Agreement, and award of an 'in-scope' Service Contract from around 1 April 2017; and (2) the commencement of a fully developed risk and benefit share mechanism into the Alliance Agreement from 31 March 2018.
- 1.3 As the arrangement progresses to the April 2017 go-live date, governance arrangements are being formalised.
- 1.4 As part of the agreed 2016/17 Internal Audit Plan, an internal audit of Outcomes Based Commissioning was identified to be undertaken.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of key controls / processes.
- 2.2 The audit will for each of the processes being considered:
 - Walkthrough the processes to consider the key risks and controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

3.1 Recommendations raised include:





Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Governing Bodies and Boards (including Conflicts of Interest)	0	2	0
Proposed Performance Monitoring Arrangements	0	1	0
Form of Draft Contract and Contract Conditions (including proposed change management process)	0	1	0
Proposed Management Reporting Arrangements	0	1*	0
TOTAL	0	5	0

*A further recommendation in this Area has been raised under Area 1 – Governing Bodies and Boards (including conflicts of interest)

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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