

Financial Management

Statement of Standard

The organisation has robust financial management systems and an effective system of internal control over the use of its financial resources.

Overview

DFP requires Accounting Officers of all government departments and their agencies to provide an annual Statement on Internal Control (SIC) in line with Turnbull guidance, to be published as part of the Annual Accounts of their organisation.

HSC Accountable Officers are similarly required to provide Statements on Internal Control on behalf of their organisations.

The SIC covers all controls, including financial, organisational and clinical and social care. Accountable Officers will only be able to sign such a statement if they have implemented a sound system of internal control, and if they have been provided with appropriate assurances as to the effectiveness of those systems.

The boards of HSC bodies are accountable for the establishment and maintenance of high standards of financial stewardship, probity and public accountability. In order to fulfil these objectives the board must ensure that an effective system of internal control is in place over the use of its finances and financial management systems. This Standard identifies the criteria which should be applied in determining the degree of assurance that can be derived from the existing financial management control systems and processes.

For the purpose of this Standard, effective internal financial control encompasses safeguarding the organisation's assets from losses of all kinds and ensuring that value for money is achieved in the use of financial resources. This Standard needs to be read in conjunction with the Governance and Risk Management Standards.

All organisations should seek to achieve substantive compliance with this Standard.

KEY REFERENCES

Statutes

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Internal Audit Quality Assessment Framework (December 2006) www.hm-treasury.gov.uk

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www.dh.gov.uk/en/policyandguidance/Organisationpolicy/Governance/DH_41/0074

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Treasury's *Orange Book* 'Management of Risk- Principles and Concepts'

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Department of Health and Social Services: Trust Manual for Accounts -
Circular HSS (F) 21/2007

<http://www.dhsspsni.gov.uk/hssf212007.pdf>

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Accountability – Circular HSS (PDD) 8/1994

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the Treasury website

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Control

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http://www.dhsspsni.gov.uk/hssf24_2001_supp1.pdf

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Control

<http://www.dhsspsni.gov.uk/hss/governance/guidance.asp>

Circular HSS(PPM) 4/2005 – AS/NZS 4360:2004 – Risk Management

<http://www.dhsspsni.gov.uk/hss/governance/guidance.asp>

Department of Health, Social Services and Public Safety: Risk Management
in the Health and Personal Social Services – Circular HSS (PPM) 8/2002

<http://www.dhsspsni.gov.uk/hss/governance/guidance.asp>

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<http://www.aasdni.gov.uk/pubs/DAOs/dao0706v3.doc>

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HSS(F) 75/2006- Managing the Risk of Fraud: Actions to Counter Fraud and Corruption [http://www.dhsspsni.gov.uk/hss\(f\) 75-2006.pdf](http://www.dhsspsni.gov.uk/hss(f) 75-2006.pdf)

HSS(F)76/2006- 76/2006- Fraud Forum Best Practice Guidance- Acceptance Criteria and Evidence Pack [http://www.dhsspsni.gov.uk/hss\(f\) 76-2006.pdf](http://www.dhsspsni.gov.uk/hss(f) 76-2006.pdf)

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<http://www.dhsspsni.gov.uk/hss/governance/guidance.asp>

Circular HSS(F) 14/2007 – Statement on Internal Control: Section F of Trust Manual

<http://www.dhsspsni.gov.uk/hssf1407pdf.pdf>

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<http://www.dhsspsni.gov.uk/hssf21-2004.pdf>

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<http://www.aasdni.gov.uk/pubs/DAOs/dao1805.doc>

DAO(DFP) 15/06 Corporate Governance Reporting
<http://www.aasdni.gov.uk/pubs/DAOs/dao1506.doc>

DAO(DFP) 07/07 Audit Committees
<http://www.aasdni.gov.uk/pubs/DAOs/dao0707.doc>

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<http://www.aasdni.gov.uk/pubs/PBGNI/dao1407pbgni.DOC>

DAO(DFP) 14/07 Attachment Public Bodies: A Guide for NI Departments
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The organisation can demonstrate that it has done its reasonable best to meet its key financial objectives.

CRITERION 1

Financial objectives for the organisations are clearly defined, approved by the board, and conform to Department of Health, Social Services and Public Safety requirements.

INFORMATION

Source

- Model HPSS Financial Governance Documents HSS (F)13/2007
- Department of Health and Social Services: Board Manual for Accounts - Circular HSS (F) 09/2007
- Department of Health and Social Services: Trust Manual for Accounts - Circular HSS (F) 21/2007

Guidance

Boards of HSC organisations must ensure, through proper processes of approval, that where applicable:

- Agreement is reached on Health and Well-being Investment Plans (HWIPs) and Trust Delivery Plans or equivalent formal planning documents.
- Board decisions are consistent with overall financial objectives
- Financial decisions are taken within an agreed strategy, and conform to DHSSPS requirements
- Financial resource plans underpin business plans to enable targets to be met
- Key financial duties are met
- Reporting mechanisms are in place to inform the board of progress against plans
- Strategic and Annual Plans are prepared
- The finance plans and budget are reconciled to the forms submitted to the DHSSPS for monitoring purposes.

Effective arrangements need to be in place to ensure that the board has complete and timely advice to support the development of its financial strategy and objectives. These should be supported by documented and justified assumptions for available income, cost and activity.

Examples of Verification

- Board minutes and reports
- Strategic and annual plans
- Annual Accounts

CRITERION 2

Board level responsibility for financial management is clearly defined and is supported by clear lines of financial accountability throughout the organisation.

INFORMATION

Source

- Department of Health, Social Services and Public Safety Accountable Officer Memoranda
- Department of Health and Social Services: Codes of Conduct and Accountability - Circular HSS (PDD) 8/1994
- Model Standing Financial Instructions for Health Boards (including Local Health and Social Care Groups)- Circular HSS (F) 3/2003
- Model HPSS Financial Governance Documents HSS (F)13/2007

Guidance

Within a framework of full board accountability, Chief Executives have primary responsibility to their boards on all matters of financial probity, regularity and value for money in accordance with their designation as Accountable Officers. Responsibility for the day-to-day financial performance lies with the Director of Finance who is responsible for ensuring that effective systems of financial control are in place, and for providing financial information and advice to enable the board and Chief Executive to discharge their statutory obligations.

Budget holders' roles and responsibilities for budget management, including performance reporting and risk management, need to be clear. In this context the board must determine and approve the appropriate committee and sub-committee structures to meet financial obligations within a framework of financial control that enables informed decision-making at all levels. Standing Financial Instructions, Standing Orders and Schemes of Delegation will define this position. All such documents require board approval.

Where the organisation makes use of third parties for delivering some of its services, it should ensure that accountability lines are clear and that proper controls are built into contracts and similar agreements with third parties. Consideration should be given to assurance certificates being provided in support of this.

Examples of Verification

- Accountability arrangements chart and terms of reference
- Schemes of Delegation
- Standing Orders

- Financial plans, policy and strategy
- Job descriptions
- Minutes of Finance, Audit, Finance and General Purpose committees, board minutes
- SFIs and supporting financial procedures

CRITERION 3

There is an Audit Committee overseeing the financial aspects of governance.

INFORMATION

Source

- Audit Committee Handbook March 2007 – HM Treasury
- Department of Health and Social Services: Codes of Conduct and Accountability – Circular HSS (PDD) 8/1994
- Model HPSS Financial Governance Documents HSS (F)13/2007

Guidance

Every HSC organisation is required to establish a non-executive committee of the board to be known as the Audit Committee. The Committee must report directly to the board. The main objective of that Committee is to independently contribute to the Board's overall process for ensuring that an effective internal control system is maintained. Audit Committees should comprise not fewer than three non-executive directors with a quorum of two.

Although some organisations are widening the remit of the Audit Committee to include wider control issues, generally the Committee's core activities relate to internal financial control issues. These will include the following:

- Effectiveness of internal financial control systems
- Independence and effectiveness of internal and external audit
- Maintenance of proper accounting records
- The control environment (including measures to prevent and detect fraud)
- The reliability of financial information
- Safeguarding of assets

In addition, the board may decide that the Committee has a role in reviewing changes to Standing Orders, Standing Financial Instructions and the Scheme of Delegation. Changes are subject to board approval, however. It may also be agreed that the Committee is best placed to review schedules of losses and compensation, approve changes in accounting policy and consider the annual accounts. Care needs to be taken that these tasks do not reflect work that should be done by other committees or by the full board. The Committee needs, in any case, to be alert to the dangers of overload.

These responsibilities will be substantially delivered through the approval of internal and external audit plans and review of progress reports. Discussions

with both sets of auditors and the Director of Finance should be the basis for obtaining explanations and clarification.

The annual internal audit report and the external audit annual letter, delivered within the context of risk-based plans, will be the key documents from which to derive assurance.

Examples of Verification

- Compliance with the requirements of the Audit Committee Handbook
- Role and terms of reference included within Standing Orders
- Reports to the board
- Minutes and reports of Audit Committee

CRITERION 4

Standing Financial Instructions, based on the Departmental model and updated to reflect current requirements, have been formally adopted by the board, and promulgated throughout the organisation.

INFORMATION**Source**

- Model HPSS Financial Governance Documents HSS (F)13/2007

Guidance

Standing Financial Instructions (SFIs) must be prepared and adopted at board level by every HSC organisation. They describe in detail the responsibilities and requirements for financial control. The Director of Finance will be delegated the task of drawing up and implementing detailed financial procedures. Organisations should have proper arrangements to ensure compliance with the SFIs.

Examples of Verification

- Board Minutes
- Documented procedure notes
- Examples of dissemination e.g. induction, briefings, awareness sessions, summary documentation, intranet
- Integration with Standing Orders
- Plans for dissemination
- Schemes of Reservation and Delegation
- Standing Financial Instructions

CRITERION 5

Financial risk management processes exist throughout the organisation.

INFORMATION

Source

- Model HPSS Financial Governance Documents HSS (F)13/2007
- Department of Health, Social Services and public Safety: Risk Management in the Health and Personal Social Services – Circular HSS (PPM) 8/2002
- Department of Health, Social Services and Public Safety: Governance in the HPSS, Risk Management – Circular HSS (PPM) 13/2002
- Department of Health, Social Services and Public Safety: Risk Management and Controls Assurance – Circular HSS (PPM) 5/2003
- Standards Australia Risk Management AS/NZS 4360:2004
- Treasury's *Orange Book* 'Management of Risk- Principles and Concepts'

Guidance

HSC organisations must undertake a regular assessment of risk in relation to the achievement of their objectives, and put in place procedures to manage those risks. An *integral* part of this process is the assessment of financial objectives.

Measures include:

- An effective link between service agreements and financial management systems.
- An effective link between the setting of financial objectives and other key organisational objectives.
- A sound system of budgetary control.
- Assumed income and planned expenditure are within a balanced, base budget (ie. covered by a recurrent allocation).
- Assumed income is in line with service agreement performance and/or anticipated allocation.
- Budget management processes and accountabilities are clear and appropriately documented.
- Early warning of shifts in referral patterns and potential financial consequences.
- Ensuring the accuracy of information through, for example, the regular clearance of suspense accounts, and reconciliation of control accounts.
- Expenditure and income problems highlighted for early action.
- Measurement against initial financial risk assessment.
- Monitoring contracts and agreements.
- Monitoring progress against key financial duties.

- Recording financial risks in the risk register.
- Regular checks undertaken into the adequacy of reserves.
- Implementation of Internal and External Audit recommendations
- Implementation of other Counter Fraud measures

Examples of Verification

- Evidence of formal financial risk assessment
- Board reports and minutes evidencing review and action
- Internal Audit reports
- Audit Committee minutes and reports

CRITERION 6

There is an effective and documented system of internal control for all financial management systems.

INFORMATION**Source**

- Model HPSS Financial Governance Documents HSS (F)13/2007
- Department of Health and Social Services: Board Manual for Accounts - Circular HSS (F) 09/2007
- Department of Health and Social Services: Trust Manual for Accounts - Circular HSS (F) 21/2007

Guidance

Effective systems and procedures need to be in place to ensure that financial transactions are legal, properly incurred and correctly accounted for. This will support the production of accurate and timely accounts, and the meeting of other financial obligations and objectives, within a secure control environment. The documentation of these systems should enable both the processes and the control mechanisms within them to be identified so that their continued effectiveness towards the achievement of objectives can be monitored.

Typical systems within this criterion include:

- Accounts consolidation
- Accounts Payable
- Billing and accounts receivable
- Budgetary control
- Capital investment and PFI
- Cash management
- Costing
- Financial reporting
- Funds held on trust
- General ledger accounting
- Payroll and expense payments
- Resource allocation
- Tendering procedures
- Treasury management

Examples of Verification

- Internal Audit plans
- Internal Audit reports
- External Audit Management letter
- Documented Financial Procedures manual
- SFIs
- Audit Committee minutes

CRITERION 7

There is an adequately resourced, trained and competent finance function.

INFORMATION

Source

- The Role of the Director of Finance in a Central Government Agency, Executive Unit or NDPB. (CIPFA, 1997 ISBN 0 85299 829 5)
- DAO (DFP) 23/04 Model management statement and financial memorandum for Executive Agencies (and other sponsored bodies)

Guidance

The finance function needs to be appropriately qualified and trained, proactive in supporting general and clinical/social care management and effective and efficient in providing services. In order for the board to determine whether a finance function is suitably resourced for current and future expectations a local strategy should be developed, approved and implemented in light of the Department of Health's *Building on Success: A Vision for Finance Staff in the Modern NHS* which was published in July 2001 and describes how the finance function is to be developed in the context of public service and NHS modernisation, providing a basis for review of current training and development plans.

Examples of Verification

- Development strategy
- Finance function being subject to "best value" and benchmarking reviews.
- Personal Development Plans
- Role and responsibilities review
- Evidence of competency in Audit Management Letter (management arrangements, information provided to the Trust Board, adequacy of Budgetary Control arrangements)

CRITERION 8

All employees, including managers and the board, are provided with adequate information, instruction and training on financial management.

INFORMATION

Source

- The Role of the Director of Finance in a Central Government Agency, Executive Unit or NDPB. (CIPFA, 1997 ISBN 0 85299 829 5)
- Model HPSS Financial Governance Documents HSS (F)13/2007

Guidance

Effective arrangements need to be in place to provide appropriate, complete and timely advice and information to all parts of the organisation to support probity, stewardship, value for money and legality with regard to financial decisions and transactions. This will become of increasing importance as service managers take on greater responsibility for operational finance activities.

Budget holders will require adequate access to financial skills, and be provided with financial training on an ongoing basis to help them discharge their responsibilities.

All staff should be provided with relevant financial training on an ongoing basis to help them discharge their responsibilities.

The Board needs to be particularly attentive to the training needs of non-executive directors so that they can contribute fully to financial decision-making.

Examples of Verification

- Board reports
- Training plans and records for the organisation, departments and individuals.
- Minutes of budgetary control meetings

CRITERION 9

The board reviews at least annually the effectiveness of its system of internal control for financial management.

INFORMATION**Source**

- Model HPSS Financial Governance Documents HSS (F)13/2007
- Department of Health, Social Services and Public Safety: Risk Management in the Health and Personal Social Services – Circular HSS (PPM) 8/2002
- Department of Health, Social Services and Public Safety: Governance in the HPSS, Risk Management – Circular HSS (PPM) 13/2002
- Department of Health, Social Services and Public Safety: Risk Management and Controls Assurance – Circular HSS (PPM) 5/2003
- Handbook of Regularity and Propriety – Treasury website

Guidance

Reviewing the effectiveness of internal control is an essential part of the board's responsibilities. The board will need to form its own view on effectiveness after careful enquiry based on the information and assurances provided to it. These will come from a number of sources, both internal and external, and may take the form of reports from the Audit Committee, internal and external auditors and Local Counter Fraud specialists. Evidence will also be available through budgetary reports, losses and compensations returns, and aged debt analyses. Review of evidence from a variety of sources will aid the board in forming a complete picture.

The board would normally use its Audit Committee and internal auditors to help it seek assurance in key areas.

Examples of Verification

- Audit Committee terms of reference and minutes
- Board minutes
- Head of Internal Audit's statement and associated evidence

CRITERION 10

The board receives regular reports on financial performance and activity. It is made aware of significant risks and determines and takes appropriate action.

INFORMATION

Source

- Health and Personal Social Services (NI) Order 1972 (as amended)
- Model HPSS Financial Governance Documents HSS (F)13/2007
- Department of Health and Social Services: Board Manual for Accounts - Circular HSS (F) 09/2007
- Department of Health and Social Services: Trust Manual for Accounts - Circular HSS (F) 21/2007

Guidance

The board needs to determine the format, content and frequency of financial and activity performance reporting that it is to receive. This should be considered in the context of statutory reporting commitments, local priorities and circumstances and national targets.

The essential element is for the board to be made aware of all significant performance and activity issues so that it is able to take early and decisive action where necessary.

Although relevant information can, and should, be derived from a number of sources, the main financial performance indicators are the budgetary control system and the medium-term and year-end outturn forecasts. In particular, the analysis and interpretation of variances within these is a key component of control. Other examples include:

- Activity levels linked to financial data
- Annual accounts, external audit opinions and reports
- Balance sheet strength
- Cash management, performance against CRL/RRL
- Compliance with Public Services Productivity Panel (PSPP) Reports
- Financial duties
- Fraud reports
- In-year I&E position / year end forecasts
- Losses
- Management costs reports
- Performance against EFL and Capital Resource Limit
- Performance of outsourced services
- Progress against Internal and External Audit recommendations
- Progress on major capital schemes
- Staffing and Establishment reports

In determining board reporting, due regard should be given to external reporting obligations. As part of this process, consideration needs to be given to board reporting in relation to financial duties and targets, clinical negligence, management costs, assurance statements, capital investment, funds held on trust etc. This consideration can only be effectively undertaken on an informed basis if a sound risk assessment process is in place.

Examples of Verification

- Board Minutes
- Board reports
- Annual Accounts
- DHSSPS monitoring returns

CRITERION 11

The Head of Internal Audit provides an annual assurance to the Audit Committee on the effectiveness of organisation's financial arrangements based on this Standard.

INFORMATION**Source**

- Department of Health, Social Services and Public Safety: Risk Management in the Health and Personal Social Services – Circular HSS (PPM) 8/2002
- Department of Health, Social Services and Public Safety: Governance in the HPSS, Risk Management – Circular HSS (PPM) 13/2002
- Department of Health, Social Services and Public Safety: Risk Management and Controls Assurance – Circular HSS (PPM) 5/2003
- Government Internal Audit Standards
- NHS Internal Audit Manual 1995
- NHS Internal Audit Standards 2002
- Board and Trust Standing Orders
- Counter Fraud Strategy, Fraud Policies and Fraud Response Plans.
- Circular HSS (F) 25/2003 – Managing the risk of fraud – a guide for managers
- Circular HSS (F) 38/2005 – Revised Fraud Reporting Arrangements
- Circular HSS (F) 63/2005 – Good Practice in Countering Fraud
- **HSS(F) 44/2006- Fraud Forum: Best Practice Guidance – Internal Fraud: Communication Within the Organisation**
- **HSS(F) 69/2006- Fraud Forum Best Practice Guidance- Internal Fraud: Management Checklist**
- **HSS(F) 73/2006- Fraud Forum Best Practice Guidance- MOU between the NIPS and PSNI**
- **HSS(F) 75/2006- Managing the Risk of Fraud: Actions to Counter Fraud and Corruption**
- Circular HSS (F) 38/98: Guidance on Losses and Special Payments.
- Treasury's *Orange Book* 'Management of Risk - Principles and Concepts'
- Handbook of Regularity and Propriety – Treasury website

Guidance

Boards of HSC bodies are accountable for the establishment and maintenance of high standards of financial stewardship, probity and public accountability. In order to fulfil these objectives the board must ensure that an effective system of internal control is in place over the use of its finances and financial management systems.

Internal audit plays a key part in ensuring financial management systems are effective by providing an annual independent and objective assessment of them to the board through its Audit Committee. To achieve this it is essential

that internal audit is adequately resourced to provide proper assessments and that it meets the mandatory professional standards set out in the NHS Internal Audit Manual and the Government Internal Audit Standards.

Organisations should ensure that the SFIs and detailed systems and procedures that underpin the financial management criteria set out in this Standard are subject to periodic review by internal audit based on risk assessment. The review should ensure compliance with the SFIs. The reviews on those detailed systems will provide further evidence of the effectiveness of the organisation's compliance with this Standard.

Where financial services are provided by a third party organisation, the board should ensure that it receives formal assurance that those systems also meet the requirements of this Standard. This should include shared service arrangements.

Internal auditors are required to liaise with the local counter-fraud officer as part of their assessment of the effectiveness of internal financial controls.

Examples of Verification

- Annual and Strategic internal audit plans
- External audit report on internal audit
- Internal audit quality control manual
- Internal audit staff development plans
- Notes of meetings with local counter-fraud officer
- Reports to the Audit Committee
- Risk Assessments supporting audit plans

CRITERION 12

The organisation can demonstrate that it has done its reasonable best to meet its key financial objectives

INFORMATION**Source**

- Department of Health, Social Services and Public Safety: Model Standing Financial Instructions for Health Boards (including Local Health and Social Care Groups) – Circular HSS (F) 3/2003
- Model HPSS Financial Governance Documents HSS (F)13/2007

Guidance

By complying with the criteria set out in this standard, organisations can demonstrate that they have taken all reasonable steps (since there can be no absolute assurance) to ensure the effectiveness of their financial management arrangements. The assurance this provides is not absolute against material misstatement or loss. To provide the assurance it is essential that there has been a review of the effectiveness of the system of internal control.

Examples of Verification

- Board Reports
- Documentary evidence to support the achievement of each of the criteria in this standard
- Internal audit reports
- External audit reports and opinions on the accounts.
- Trust Delivery Plans
- Budget revisions
- Recovery Plans