

To: BSO Board

From: Chief Executive

Subject: DRAFT 2012/13 GOVERNANCE STATEMENT

Status: REVIEW / COMMENT

Date of Meeting: 25 April 2013

The Board will be aware of the requirement on the Chief Executive to provide a Governance Statement (formerly Statement on Internal Control) as part of the Annual Accounts. The BSO was advised in October 2012 of the Department's intention to introduce the Governance Statement and formal guidance was issued to all Arm's Length Bodies in February 2013.

In reviewing the attached draft Governance Statement the Board is asked to note the following actions which have been taken by BSO in compiling the new Governance Statement, prior to presentation to the Board.

- Attendance of BSO finance staff at Workshop/Meeting with DHSSPS to discuss new structure and mandatory content of the Statement.
- A Review of 2011/12 Governance Statements (issued in England) which have been identified by DHSSPS as good practice.
- Presentation of the Draft Governance Statement for review and comment to:
 - SMT on 13 March and 10 April 2013
 - GAC on 16 April 2013

The Board should note that a small amount of detail is still to be confirmed and this will be included in the Draft Final Accounts to be presented to the Board.

The Statement is presented to the Board for review and comment.

1. **Introduction**

I am pleased to introduce the Governance Statement for 2012-13, which explains the Business Services Organisation approach to corporate governance and how they operate in practice. The Statement also provides an account of the BSO Board and Committees, including reference to the Board's performance and effectiveness.

In addition, it represents a medium for the Accounting Officer to highlight significant controls issues which have been identified during the year and those previously reported which are continuing with the Business Services Organisation.

The Governance Statement forms an integral component of the Annual Report and Accounts.

2. **Scope of Responsibility**

The Board of Business Services Organisation is accounting for internal control. As Accounting Officer and Chief Executive of the Board, I have responsibility for maintaining a sound system of internal governance that supports the achievement of the organisations policies, aims and objectives, whilst safeguarding the public funds and assets for which I am responsible in accordance with the responsibilities assigned to me by the Department of Health, Social Services and Public Safety.

2.1 There are a range of processes and structures in place to ensure appropriate accountability. These include:

- Management Statement/ Financial Memorandum with the DHSSPS
- Service Level Agreements with Customers

2.2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives; and evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 Aside from the main BSO function, the following Regional Programmes and Administered Services fall within the Business Services Organisation's accounting boundary:

2.4 ***Business Services Transformation Programme***

In May 2010 oversight for BSTP transferred to the BSO. The role of the BSO within the overall programme and management structure is to coordinate, direct, resource and oversee the implementation of the BSTP and related projects in order to deliver the expected outcomes and benefits within the agreed financial resources and timescales. As Accounting Officer for the BSO I have the responsibility for expenditure of the delegated budget. Appropriate governance arrangements are in place which clearly outline the roles and responsibilities of all parties concerned, ie. DHSSPS, Senior Responsible Officer, BSO and other HSC Organisations.

2.5 ***ICT***

Individual ICT projects, commissioned by HSCB within the context of the Regional HSCICT Strategy, are each assigned a Senior Responsible Owner (SRO). While BSO Information Technology Services (ITS) provide a project management service and manage project expenditure, the ongoing performance of these projects will continue to be the responsibility

of the SRO and will be monitored through project management arrangements agreed with the SRO and HSCB. The BSO resources used to project manage and enable delivery of the projects are managed by a commissioning agreement with HSCB. HSCB is responsible for commissioning the projects and allocate the required budget to deliver these to the BSO on an annual basis. Robust monitoring arrangements for project oversight exist within the BSO. Appropriate oversight arrangements at a corporate level within BSO and HSCB are operational with formal progress and exception reporting on a quarterly basis. BSO is responsible for ensuring that programme funding is spent in line with the annual spend projections agreed between BSO and HSCB for each project (or any adjustments agreed to these in year), or that any exceptions are reported in a timely way to HSCB, and that BSO ITS project management resources are delivered in line with the HSCB commissioning agreements.

2.6 *Administered Services*

The BSO, on instruction from the DHSSPS, undertakes payment arrangements for a range of services, namely, Bursaries for Nurse Training, Healthy Start Initiative, Supplement for Undergraduate Medical and Dental Education (SUMDE), Regional Training Schemes and ArtsCare for which total funding of approximately £20m is received via the Revenue Resource Limit (RRL). The responsibility of the BSO in relation to Bursaries and Healthy Start services has been clarified in discussions with Departmental representatives and outlined in formal Service Level Agreements.

3. **Compliance with Corporate Governance Best Practice**

The Business Services Organisation applies the principles of good practice in Corporate Governance and continues to further strengthen its governance arrangements. The BSO does this by undertaking continuous assessment of its compliance with Corporate Governance by undertaking assessment of its compliance with best practice by assessing the BSO Governance arrangements against the Departmental ALB Assessment tool. This process puts in place a process for regular evaluation of BSO Board effectiveness.

3.1 *Self Assessment*

The Business Services Organisation undertook its first self assessment on 28 March 2013 to establish a baseline position and to identify development or support needs. This self assessment concluded that the Board of the Business Services Organisation is compliant with the Corporate Governance Code with the following exceptions: **(TO BE INSERTED)**

3.2 *Continued Training*

The Board has been fully briefed on the Code of Conduct and Code of Accountability at a workshop which took place on 29 November 2012. The workshop provided the Board with information on the new guidance issued by the Permanent Secretary on 18 July 2012, and identified and highlighted changes from the 2005 guidance. The workshop also provided the Board with an opportunity to discuss the implications of the changes on the operational aspects of BSO.

4. **Governance Framework**

In my role as Accounting Officer, I operate with the support of the Board. This includes highlighting to the Board specific business implication or risks and, where appropriate, the measures that could be employed to manage these risks or implications. I am also accountable to the Minister for Health, Social Services and Public Safety, and ultimately to Parliament and the Public Accounts Committee, for the services the Organisation provides, and for the effective and economical use of taxpayers' money.

5. Composition of BSO Board

Since April 2009 the Board has been chaired by Mr Alexander Coleman. Board membership comprises: nine non executive directors including the Chairman and four Executive Directors.

BSO BOARD	
Mr Alexander Coleman (Chairman)	
Non Executive Directors	Executive Directors
Mrs Geraldine Fahy	Mr David Bingham (Chief Executive)
Mr Greg Irwin	Mr Patrick Anderson (Director of Finance)
Mr Alan Hanna	Mr Hugh McPoland (Director of HR&CS)
Mrs Hilary McCartan	Mrs Teresa Molloy (Director of Operations)
Mr Robin McClelland	
Mr Brian McMurray	
Mr Sean McMahan	
Mr Gerry Strong	

5.1 *Board Membership, meetings and attendance during 2012/13*

There were no changes to Board membership during the 2012/13 year and the Board met on twelve occasions.

Non Executive Directors' attendance was as follows: Robin McClelland attended eight meetings; Sean McMahan and Geraldine Fahy attended nine meetings; Hilary McCartan and Brian McMurray attended eleven meetings; Alan Hanna and Gerry Strong attended twelve meetings. All meetings were attended and chaired by Alexander Coleman.

A Special Confidential Board Meeting took place on 7 February 2013 to update Board members on internal audit reports received at the January 2013 Governance and Audit Committee and is included in the above figures.

5.2 *Board role and performance*

The Board has a key role in overseeing the sound financial management and corporate governance within the Organisation and closely monitors progress in the achievement of key objectives and priorities as set out in the Corporate Strategy including Service Delivery Plan.

The Board of the BSO exercises strategic control over the operation of the organisation through a system of corporate governance which includes: -

- a Corporate Plan;
- a schedule of matters reserved for Board decisions;
- a scheme of delegation, which gives decision making authority, within set parameters, to the Chief Executive and other officers;
- standing orders and standing financial instructions;
- the establishment of a Governance and Audit Committee;
- the establishment of a Remuneration Committee.
- the Management of Information Systems

5.3 The system of internal financial control is based on a framework of regular financial information, administrative procedures, including the segregation of duties, and a system of delegation and accountability. In particular it includes:-

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Board;
- Regular, formal in-year forecasts (or latest best estimates – LBEs) which are submitted to the Board for noting;

- monthly reviews by the Board of financial reports which indicate financial Performance against forecast;
- Setting targets to measure financial and other performances;
- clearly defined capital investment control guidelines;
- formal budget management disciplines, eg. monthly reports and variance analysis.

5.4 **Register of Interests**

The BSO maintains a register of Non Executives' interests to ensure that their duties elsewhere do not conflict with their work in the BSO. Non Executive Directors are required to declare any conflicts promptly. They were asked to update this in August 2012 and confirmed that there were no new interests that created a potential conflict.

6. **Governance and Audit Committee (GAC)**

The Governance and Audit Committee has been chaired by Mr Brian McMurray since its inception in 2009. Governance and Audit Committee membership comprises: four non executive directors including the Committee Chairman.

6.1 **Governance and Audit Committee - Membership, meetings and attendance during 2012/13**

There were no changes to the Governance and Audit Committee's membership during the 2012/13 year and the During the 2012/13 year the Governance and Audit Committee met on six occasions.

Non Executive Directors' attendance was as follows: Geraldine Fahy attended six; Hilary McCartan attended five and Robin McClelland attended three. All six meetings were attended and chaired by Brian McMurray.

The Committee has adopted the practice of inviting the Director of Finance, the Head of Internal Audit and the Northern Ireland Audit Office (NIAO) to all meetings, and on occasions, other BSO senior managers are invited to attend. The DHSSPS may also request to attend a meeting.

6.2 **Governance and Audit Committee - Role and Performance**

The Governance and Audit Committee is a Sub Group of the Board and supported the Board during 2012/13 by:

Scrutinising:

- BSO Financial Statements
- Internal and External Audit Findings
- Controls Assurance Standards

Reviewing :

- Governance Statement
- Mid year Statement on Internal Control
- Annual Internal Audit Plan
- External Audit Strategy
- BSO Standing Orders and other relevant Policies

Monitoring

- Monitoring of outstanding audit recommendations
- Fraud/Whistle Blowing Reports
- National Fraud Initiative
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The Board includes risk within its remit, with the GAC overseeing risk assurance processes. The Committee conducts annual self-assessments of its effectiveness against this remit.

7. Remuneration and Terms of Service Committee

The Remuneration and Terms of Service Committee is chaired by Mr Alexander Coleman. Remuneration and Terms of Service Committee membership comprises of five non executive directors namely: Alan Hanna, Sean McMahon, Gerry Strong and Greg Irwin and the Chairman Alexander Coleman.

7.1 *Remuneration and Terms of Service Membership, meetings and attendance during 2012/13*

There were no changes to the Remuneration and Terms of Service Committee membership during the 2012/13 year.

During the 2012/13 year the Remuneration and Terms of Service Committee met twice. The meetings were chaired by Mr Alexander Coleman and all Non Executive Directors' were in attendance.

7.2 *Remuneration and Terms of Service - Role and Performance*

The Remuneration and Terms of Service Committee is a sub Group of the Board and its role is to advise the Board about appropriate remuneration and terms of service for the Chief Executive and other Senior Executives. The Main functions of the Committee are to:

- Make decisions on behalf of the Board of the BSO on the total remuneration and terms of service package for Executive Directors, Senior Executives and Senior Managers which reflect DHSSPS Circulars and determinations.
- Monitor
 - A remuneration strategy that reflects national agreement and department policy
 - The application of the remuneration strategy to ensure adherence to all equality legislation

8. Senior Management Team

As accounting officer, I am supported by my Senior Management Team (SMT) which comprises BSO Directors, BSTP Programme Director and HSC Head of Leadership. It provides a weekly forum for the consideration and endorsement of corporate business and handling of emerging issues.

SMT also provides a fundamental management assurance framework, to assist the Accounting Officer, to identify potential areas of concern and focus resources to remedy these. This framework requires each Director to report on internal control within their Directorates both at SMT and at individual regular accountability meetings with the Accounting Officer.

9. Business Planning

9.1 Business planning and risk management is at the heart of governance arrangements to ensure that statutory obligations and ministerial priorities are properly reflected in the management of business at all levels within the organisation. The BSO is an Arms Length Body and is required to take its lead from the wider strategic vision and goals of the Department of Health, Social Services and Public Safety (DHSSPS). Along with the wider HSC, BSO contributes to the priorities set out the NI Programme for Government 2011-15.

9.2 The current BSO Corporate Strategy is dated 2012-15 and outlines four Strategic Objectives relating to improving customer experience, growing and developing, recognising and embedding excellence, innovation and ensuring good governance. The mission and values of the BSO are also outlined in the Corporate Strategy which is supported by an annual

Business Plan setting out the key priorities and targets to be delivered during that year. An annual Strategic Planning Day is held in October and is attended by senior managers from across BSO. In October 2012 a representative from DHSSPS also attended the workshop to outline the Departmental priorities for 2013-14 and outline a revised timetable for business planning within HSC. Draft Business Plans are now required to be submitted to DHSSPS for approval by the end of January each year.

- 9.3 In December 2012 the Permanent Secretary and HSC Chief Executive confirmed details of the organisational and service requirements to be delivered by the BSO during 2013-14. These have been incorporated into the draft BSO Business Plan with appropriate targets and actions set against them.
- 9.4 The DHSSPS utilises the BSO Business Plans as a basis for accountability reviews and checks progress periodically throughout the year. The BSO also uses the Plan internally to guide action and update performance management metrics and risk registers. These Plans are also useful to customers to show the direction of travel for BSO. Strategic and business plans are driven beyond the BSO corporate planning process into the operational layers of the organisation. Each business area within the BSO has its own local business plan which reflects the Strategic Objectives and feeds into the corporate Business Plan. These local business plans form the basis of work for Directors, Assistant Directors, managers and staff across the organisation and of individual and team performance appraisal.

10. Risk Management

Risk Management is an organisation-wide responsibility. In the BSO, there are two key levels at which the risk management process is formally documented:

- 10.1 ***Corporate Risk Register*** which quantifies strategic risks and outlines controls / assurances and action plans approved by the BSO Board to ensure the focused and effective management of these risks. It is comprised of risks that have been identified to the achievement of the BSO Strategic Objectives, includes Principal Risks as identified in the BSO Board Assurance Framework – Corporate Risk and Assurance Profile and other significant risks that have / may arise in year The Corporate Risk Register is operationally managed by SMT who will report quarterly to the Board.
- 10.2 ***Directorate/Service Area Risk Register*** which quantifies all risks, sets out controls in place and determines the residual risk that remains. It is comprised of all the identified risks for each service within a Directorate and it is the direct responsibility of the various Directors to manage the risks in their respective areas. Action Plans are developed for all risks classified as Extreme, High or Medium and progress monitored by Directors. Directorate / Service Area risk Register are operationally managed at local level and Asst Directors /Senior Managers will report quarterly to their Director.
- 10.3 There is an escalation process in place to allow risks, where relevant, to be escalated to/from Corporate / Directorate Risk Registers which ensures that significant risks are reviewed by the Board. In 2009/10 and 2011/12 this process was reviewed by Internal Audit and awarded satisfactory assurance and substantive compliance was achieved on the CAS Risk Management Standard.
- 10.4 Risks to the management of information / data security are identified and managed by the Information Governance Management Group, representatives of which are drawn from the Senior Managers cadre across the BSO.

- 10.5 The BSO'S aim is to ensure good risk management is evident and sustained throughout the organisation by the involvement of all staff in the identification and management of risk in their service. Staff are involved in assessing risks for their service.
- 10.6 Risk Management Policies & Procedures are in place which describe the arrangements for embedding risk management in the activities of the BSO, through processes for identifying, assessing and responding to risks and incidents. The Senior Management Team has been responsible for the development, management and implementation of the BSO's Risk Management Strategy. The Monitoring Arrangements were in place with the Policy require progress reports on risk actions to the appropriate level - Board, Governance and Audit Committee, Senior Management Team and Directors.

10.7 ***Leadership /Training / Lessons Learnt***

Overall responsibility for risk management rests with the BSO Board, with responsibility for the implementation assigned to the Chief Executive. The Director of Finance is the Board's Accountable Officer for Risk Management, which is delivered through the Directorate of Customer Care and Performance.

Leadership is given to the risk management process by BSO Directors and the Chief Legal Adviser, who are operationally responsible for the management of risks within their respective Directorates in accordance with BSO Risk Management Policies and Procedures. Risk Management is a core component of the job description of all senior managers within the organisation. Training on identification of Risk was provided by CIPFA to Assistant Director /Director and Non Executive Directors in February 2013. Future training needs are under review.

11. Information Risk

11.1 Safeguarding the BSO Information and its subsequent use supports the Organisation in the delivery of its objectives. Central to achieving this is the effective management of information risks. Risks to the management of information / data security are identified and managed by the Information Governance Management Group, representatives of which are drawn from across the BSO. This Group reports to the BSO Board and the BSO Senior Management Team via the Director of Human Resources and Corporate Services.

11.2 The arrangements in place to manage information risk include:

- The Human Resources and Corporate Services Director is the Data Guardian of the Organisation and he regularly reviews information to ensure that it is appropriately protected.
- A Senior Information Risk Owner (SIRO) and Information Asset Owners (IAO) are in place to reduce the risk to personal information within each Directorate.
- Directorate Information Assets Registers are reviewed regularly and updated.
- IAOs are aware of their responsibilities to ensure that information is securely stored, access controlled and disposed of appropriately.
- Regular mandatory training is delivered to all BSO staff, providing them with an up to date understanding of information Governance issues and risks.

- 11.3 The Business Services Organisation also has a Records Management Policy Statement underpinning its records management arrangements. Appropriate guidance, central controls and a disposal schedule process all govern the retention and disposal of BSO records.
- 11.4 Operationally there are controls in place at Directorate level to manage access to personal data. All of the regional systems and those which support the FPS payments are governed by data subject access requirements. All key systems are password protected and subject to automatic protocols which require regular change.

12. The BSO receives assurances through the following internal control frameworks:

- Financial Control (see paragraph 5)
- Management Assurance (see paragraph 8)
- Controls Assurance Process and Action Plans
- Mid Year and Annual Assurance Governance Statements
- Corporate Risk and Assurance Report
- Audit Control Process
- Adverse Incident and Complaints
- Fraud, Bribery and Whistle Blowing
- HSS (F) 67/2006 - Payments in respect of Litigation and Legal Services in the HPSS – Implementation of Controls

12.1 *Mid Year and Annual Governance Statements*

The Board evaluates its effectiveness of its risk and assurance arrangements each year through the presentation of a mid year and annual assurance statement by the Accounting Officer. The mid year statement supplements the year end Governance Statement by providing in-year assurance on the continuing robustness of the Business Services Organisation system of internal governance including the identification of governance matters that have arisen.

12.2 *Controls Assurance Standards*

The Business Services Organisation assessed its compliance with the applicable Controls Assurance Standards which were defined by the Department and against which a degree of progress is expected in 2012/13.

The Internal Auditor also reported on the BSO's compliance with HSC Controls Assurance Standards. She confirmed that she had verified compliance with the core standards of Risk Management, Financial Management and Governance and that substantive compliance had been achieved in all three standards. She also reported that **substantive** compliance had been obtained in respect of the Management of Purchasing and Supply, Health & Safety and Waste Management.

The Organisation achieved the following levels of compliance for 2012/13

Standard	DHSSPS Expected Level of Compliance	Level of Compliance	Audited by
Buildings, land, plant and non-medical equipment	Substantive	Substantive	Self Assessed
Emergency Planning	Substantive	Substantive	Self Assessed
Environment Management	Substantive	Substantive	Self Assessed
Financial Management (Core Standard)	Substantive	TBC	Internal Audit
Fire safety	Substantive	Substantive	Self Assessed
Fleet and Transport Management	Substantive	Substantive	Self Assessed
Governance (Core Standard)	Substantive	TBC	Internal Audit
Health & Safety	Substantive	TBC	Internal Audit
Human Resources	Substantive	Substantive	Self Assessed
Information Communication Technology	Substantive	Substantive	Self Assessed
Management of Purchasing and Supply	Substantive	TBC	Internal Audit
Records Management	Substantive	Substantive	Self Assessed
Risk Management (Core Standard)	Substantive	TBC	Internal Audit
Security Management	Substantive	Substantive	Self Assessed
Waste Management	Substantive	TBC	Internal Audit

This assessment has identified areas for improvement in the systems and processes to maintain compliance. Action plans are in place to achieve progress in 2013/14.

12.3 ***Corporate Risk and Assurance Report***

The BSO receives much of its assurance through its Corporate Risk and Assurance Report which contains the risks to the achievement of BSO Objectives, outlines the existing controls and assurances and identifies gaps in controls or assurances and outlines any necessary actions required to close these gaps. Progress on risk actions, changes to the risk profile were monitored monthly by SMT and quarterly by the BSO Board.

The Corporate Risk and Assurance Report provides a structure for the Accounting Officer, the Governance and Audit Committee and the BSO Board for acquiring and examining the evidence to support the Governance Statement.

The BSO continues to develop its assurance processes by building on the twin concept of separating evidence collation and evidence assurance, thereby allowing the BSO Board to have greater confidence in the system of internal control operating within the BSO.

12.4 ***Mid Year and Annual Governance Statements***

The Board evaluates its effectiveness of its risk and assurance arrangements each year through the submission of a mid year and annual assurance statement to the DHSSPS. The mid year statement supplements the year end Governance Statement by providing in-year assurance on the continuing robustness of the Business Services Organisation system of internal governance including the identification of governance matters that have arisen.

12.5 ***Audit Control Process***

All internal and external audit reports and reviews are presented to the Governance and Audit Committee. Management responses to the recommendations are scrutinised by the Committee. To ensure the timely implementation of actions arising from such reports the BSO implements an Audit Control Process. This involves:

- The uploading of all audit recommendations on to the Audit Reporting Tracker database;
- a response by managers via the Audit Reporting Tracker database outlining the progress made in implementing recommendations or an explanation for any delays in so doing;
- a review by the Director of Finance of progress made and a request for remedial actions if necessary;
- the presentation of regular reports on progress to the Governance and Audit Committee;
- a review of all recommendations by the Senior Management Team.

The Internal Auditor carries out a follow up audit on a bi-annual basis and reports to the Governance and Audit Committee on progress in implementing recommendations

12.6 ***Adverse Incidents and Complaints***

The BSO recognises that both adverse incidents and complaints can be indicators of inadequate processes and unsafe practices. The examination can present the opportunity to improve services, limit risks and contribute to the achievement of the BSO's objectives.

During 2012/13, fourteen adverse incidents were reported and three serious adverse incidents, the detail of which has been highlighted under the internal governance divergences section. Thirteen complaints were received and appropriate action taken.

During 2012/13 a total of eighty five Freedom of Information requests were received with 92% being responded to within 20 days.

There have been six incidents of data loss reported to the Information Commissioner during 2012/13. To date, the Information Commissioner has advised that it does not intend to take further action in respect of five of those cases reported and a decision on the sixth is awaited.

During 2012/13 the corporate management arrangements relating to the Business Continuity Plan were tested and reported to the Board. Testing comprised of a desk top exercise which took place in February 2013 to test the arrangements defined in the plan. A test of the Emergency Plan, using the arrangements in the Business Continuity Plan will be conducted across HSCNI in May 2013.

12.7 ***Fraud, Bribery and Whistle Blowing***

The BSO is a participant in the National Fraud Initiative. The BSO complied with the Data Protection Act 1988 by issuing Fair Processing Notices to advise individuals that their data was being processed. Regular reports on data matches and investigations undertaken together with monies recovered as a result of NFI are presented to the Governance and Audit Committee.

The BSO is committed to the prevention of fraud and the promotion of an anti-fraud culture to ensure the proper use of the public funds with which it has been entrusted and has in place both Fraud and Whistleblowing Policies to make it clear how cases will be dealt with and how staff can report suspicions or concerns. A fraud register is maintained within the BSO which details all, actual or potential, frauds notified. The Fraud Register is presented regularly to the Governance and Audit Committee.

12.8 ***Compliance with Circular HSS (F) 67/2006***

In 2006 the DHSSPS issued a circular on the arrangements for dealing with payments to

legal representatives for claims and the controls expected. As the sole provider of legal services to the HSC, the BSO Directorate of Legal Services is required to comply with this circular.

The Chief Legal Adviser has confirmed to me that the BSO is compliant with HSS(F) 67/2006.

13. Sources of Independent Assurance

The Business Services Organisation obtains Independent Assurance from the following sources:

- Internal Audit;
- Northern Ireland Audit Office;
- Attainment / Accreditation
- Findings of Other Review Bodies

13.1 *Internal Audit*

The Business Services Organisation has an internal audit function which operates to defined standards and whose work is informed by an analysis of risk to which the body is exposed and annual audit plans are based on this analysis. The annual audit plan is approved by the Governance and Audit Committee. Regular reports are provided by the Head of Internal Audit to the Governance and Audit Committee. The remit and membership of this group is set out in the Board Sub-Committee section.

In 2012-13 Internal Audit reviewed the following systems:

Finance Audits	Assurance Obtained
Key Financial Controls	Satisfactory
Payroll	Limited
Bank and Cash	TBC
Non Pay Expenditure	TBC
Budgetary Control	Satisfactory
General Ledger	Limited
Management of ITS Contracts	Satisfactory
Corporate Risk Based Audits	
Director of Legal Services	Satisfactory
FPS Medical	GP Payments: Satisfactory Registration Unit: Substantial
FPS Pharmaceutical	Satisfactory
ITS	TBC
Pensions Service	Satisfactory
BSTP Audits	
BSTP Project Management	Satisfactory
FPL Go Live IT Audit (Including Interfaces)	Limited
HRPTS Go Live IT Audit (Including Interfaces)	TBC
BSTP Central Administration	TBC
Governance Audits	
Risk Management	Satisfactory

In her annual report, the Internal Auditor reported that the Business Services Organisation system of internal control was **adequate and effective**. However, weaknesses in control were identified in a number of audits in relation to Payroll, General Ledger, ITS Management of Contracts and Pensions and these are highlighted below. Recommendations to address these control weaknesses have been or are being implemented.

Further significant weaknesses were reported in BSTP audits and these have been highlighted under the internal governance divergences section of the Statement.

The Auditor also noted that the ITS contract management procedures stated that the signed, original version of each contract should be passed to the Contracts Team for filing in the Contracts Library and recording on the Contracts Register. However, during the course of their review it was identified that 5 contracts retained on file by the Contracts Team were not up to date as required by the procedures. In addition, a number of contracts had been signed by the relevant parties after the commencement date of the contract. In response to this recommendation BSO undertook to enhance its Contract monitoring processes to ensure that action is taken to renew contracts where appropriate. An Improved Escalation process was also implemented.

Pensions

The Auditor noted that a System Manager had access privileges which would permit, in theory, the creation of a fictitious pension member to enable payment to be made from the newly implemented Altair Systems. In response to this recommendation BSO ensure all users' access levels are reviewed by management quarterly. In addition all immediate payments are checked using a system-generated report which will assist in highlighting anomalies before the payment is processed and a record of any checks is held on file for audit or management review.

(Insert Priority Ones from Internal Audit Reports still to be issued 2012/13)

13.2 *Internal Audit Reviews*

In 2012/13 the Internal Audit also carried out a number of specific reviews on behalf of BSO.

- Management of Contracts Review
- Migration to Finance, Procurement and Logistics (FPL System)
- User Acceptance Testing

Management of Contracts Review (To be Inserted)

Migration to Finance, Procurement and Logistics (FPL) System

Full audits of the new system FPL and HRPTS were conducted in March 2013 the outcomes of which are reported in the internal audit table and at paragraph xxx Internal Governance Divergences. BSO, however, requested an initial review of the migration to the new Finance, Procurement and Logistics (FPL) system in November 2012, following go-live on 15th October 2012. This review covered the Business Services Organisation (BSO) and the client organisations that BSO utilise the FPL system for.

The scope of the Review was to:

- Review the Go Live Readiness Checklist and training performed for BSO and BSO client organisations.
- Ensure data has been fully migrated for BSO and BSO client organisations.
- Ensure that adequate assurances are in place for system security (FPL).
- Review the FPL access privileges allocated to staff with regards to Accounts Payable, Accounts Receivable, Procurement, Budgetary Control and General Ledger for appropriateness particularly in respect of segregation of duties controls.
- Review expenditure authorisation limits set up within Finance Process Manager (FPM)

of the FPL system to determine whether these were accurately transferred from BSO's existing Schedule of Delegated Authority (SODA).

- Ensure E-Procurement has been established appropriately and that catalogue activity has been uploaded accurately.

Data migration was the main focus of this review and internal audit noted that data migration was verified by two members of senior management in addition to the reconciliations prepared by the System Administrator, as a result no issues were noted in relation to accuracy of data migration. Issues were also identified in a number of areas and recommendations to address these control weakness have been or are being implemented.

User Acceptance Testing

(To be inserted)

13.3 Northern Ireland Audit Office

The Financial Statements of the Business Services Organisation are audited by the Northern Ireland Audit Office and the results of their audit are set out in their Annual Report to those Charged with Governance.

A representative from the Northern Ireland Audit office attends the BSO Governance and Audit Committee meetings. The remit of this committee is set out under the Board Sub-Committee Section.

13.4 Findings of other Review Bodies

(Comment on DHSSPS Contracts award to be inserted)

13.5 Attainment /Reaccreditation

The BSO continues to promote the value of external assurance gained through benchmarking services, attainment / reaccreditation of recognised awards such as COPE, IIP, Lexcel, Mark of Excellence Award. They form part of the assurance process which assist the BSO in providing assurance to others that risks are effectively managed and the organisation is on track to achieve its strategic vision, aims and objectives.

14. Review of Effectiveness of the System of Internal Governance

As Accounting Officer, I have responsibility for the review of effectiveness of the system of internal governance. My review of the effectiveness of the system of internal governance is informed by the work of the internal auditors and the executive managers within the Business Services Organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Governance and Audit Committee and a plan to address weaknesses and ensure continuous improvement to the system is in place.

The committee and reporting structures of the BSO provide the framework and process that maintains, monitors and reviews the effectiveness of the system of internal controls and risk management.

14.1 The Board reviews:

- Corporate Risk & Assurance Report quarterly to identify gaps in controls and assurances and to agree and review actions provides evidence that the effectiveness of controls that

manage the risks to the BSO achieving its objectives have been reviewed.

- Regular reports giving internal assurances, at monthly and quarterly intervals including finance, performance, human resources and corporate services and reports on service delivery.
- Annual Reports such as Annual Accounts and Annual Report
- External Assurances: Report to those charged with Governance
- Governance and Audit Committee Annual Report to the Board

14.2 ***The Governance and Audit Committee reviews:***

- Internal and External audit reports
- Audit Control Process which monitors adherence to audit recommendations
- Service Risk Reports: risk management process and progress on risk actions
- Report on Adherence to Controls Assurance Standards
- Annual risk report
- Fraud reports

14.3 The Senior Management Team (SMT) manages the BSO governance processes that enable Directors to report to the Board. At SMT Directors who have responsibility for the development and maintenance of the system of internal control provide me with assurance.

14.4 The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the annual Internal Audit report. My review is also informed by reports received from External auditors including the Report to those Charged to those with Governance.

In respect of the findings of the Internal Audit Reports as described in sections xxx -xxx and the Significant Internal Control Issues described in section xx and xx I am satisfied that there are plans in place to address any weaknesses identified and ensure continuous improvement to the system of internal control will be implemented in 2012/13.

During 2012/13 xx% of recommendations within internal audit reports received by the BSO were actioned. The Audit Control process, reporting progress on recommendations regularly to the Governance and Audit Committee and to the SMT, will continue during 2012/13. The internal audit plan for 2010-13 will continue to focus on addressing those areas deemed to pose the highest risk to the attainment of the Organisation's objectives.

15. Internal Governance Divergences -Update on prior year control issues which continue to be considered control issues

15.1 ***Family Practitioner Service – Secondary Database Systems***

Family Practitioner Services (FPS) continues to operate with a significant number of secondary database type systems which supplement and support primary systems in calculating payments to family practitioners (c£750m pa). These secondary databases have been developed to accommodate changes in the type of payments made under new practitioner contracts. This situation is unchanged during 2011/12. The BSO recognises the risks associated with these secondary systems and is engaged in a Project to replace all existing FPS systems, under the auspices of the Business Services Transformation Programme. DFP approved the OBC for these replacement systems in February 2012. The project is underway Gateway approval processes and initial procurement activity will commence upon receipt of a financial allocation from HSC Board.

During March to August 2012, the FPS User Requirements were developed, completed and quality assured by the Project Teams and the Project Assurance Team. However, the

procurement phase of the FPS Replacement System was delayed, as supplier bids were outside Business Case tolerances. The Full Business Case (FBC), reflecting revised costs, was approved by DHSSPS on 26 February 2013 and has been forwarded to DFP for approval. HSCB has provided assurance that the Project will be funded. A “Preferred Supplier” has been identified and it is anticipated that the contract will be awarded on 1st April 2013 (subject to DFP approval of FBC).

A project to accelerate payments to pharmacists has been successful, with FPS being in a position to make payments within a 30 day payment cycle in December 2012 and January and February 2013. The sustainability of making this payment within a 30-day cycle remains medium risk, given the dependencies involved.

15.2 ***Significant Challenges for HSC to deliver services based on NI Executive Budget 2011-15***

The Northern Ireland Executive’s Final Budget 2011-15, announced by the Minister for Finance and Personnel on 4 March 2011, presents very significant challenges for Health and Social Care in Northern Ireland to deliver on the overall objectives for Health and Social Services and Public Safety and maintain services within a financial envelope significantly less than the assessed level of need. Allied to the significant underlying deficits identified by Trusts and the need to achieve additional savings, through cost reduction programmes, to offset these deficits there is a risk that the overall levels of savings required across HSCNI are so great that the services which BSO provides to its customers are adversely affected or the Organisation itself fails to breakeven.

To mitigate against these risks the BSO has initiated a BSO Service offering which will provide continued focus on providing HSC clients with a value for money, best in class service which is underpinned by an improvement in overall efficiency of at least 3% in 2012/13.

The BSO has identified the potential for generating additional income by offering our services beyond HSC. It is however at present constrained by the legislation governing the functions of the Organisation and which are highlighted below.

15.3 ***Legacy Organisations not included in the 2009 HSC Reform Act***

Under the continuum of service provision inherited from legacy organisations the BSO provides certain services to customers which, while under the direction of DHSSPS, were not included in the 2009 HSC Reform Act. The services are provided under service level agreement. The management fee for services provided is not material relative to BSO’s core services. The omission of these customers is currently the subject of discussion with the DHSSPS.

On 1 February 2013 the DHSSPS issued a consultation document on proposed legislation aimed at amending the founding legislation of the BSO i.e. Health and Social Care (Reform) Act (NI) 2009 (the Reform Act). As currently framed, the Reform Act does not provide the DHSSPS with the power to direct the BSO to provide support services to the Department itself, nor to the following Departmental Arms-Length Bodies: NI Health and Social Care Council (NISCC), NI Practice and Education Council for Nurses and Midwives (NIPEC), and NI Fire and Rescue Service.

The draft Bill proposes to make an amendment to the Reform Act which would provide the BSO with the necessary legislative cover to provide support services to NISCC, NIPEC and NI Fire and Rescue Service. The opportunity has also been taken to create a statutory authority for the BSO to administer health and social care functions on behalf of the

Department. The proposed legislation also seeks to provide greater clarity on the nature of the fraud prevention support service provided by BSO by redefining it to “counter fraud and probity services.”

The proposed amendments are simply seeking to clarify the original policy position specified in 2009 in relation to the services and functions of the BSO and relate to the Health and Social Care family. The consultation is due to close on 29 March 2013.

15.4 *Serious Adverse Incidents – HSC Data Centers*

The Regional ITS data-centres are hosted in the Royal Victoria Hospital (RVH) and Belfast City Hospital (BCH) in an environment provided by the Belfast Trust Estates Department.

Following an adverse incident in April 2011 as a result of an unplanned power outage in the RVH, there was downtime in services hosted in the on the HSC data-centres. An SAI review was undertaken on behalf of BSO in relation to this incident. The report, published in June 2011 made a number of recommendations which have been implemented: high availability software has been upgraded, air-conditioning and power supplies in both the BCH and RVH have been replaced. There was on-going instability in the VMware platform which led to an SAI in January 2012. This instability was rectified in May 2012 and the underlying cause was finally confirmed as a faulty piece of hardware in September 2012.

An external review conducted by Gartner in 2012 highlighted a number of areas for ITS improvement, including some longer term recommendations for data-centres and technology alignment. This is being taken forward as a project in the 2012/13 period to implement the recommendations of the Gartner project. The technical recommendations of the “Gartner Review” have been significantly progressed including upgrades of the firmware in the blades, SAN and storage. The network switches in the data centers have been upgraded to a virtual single switch enhancing network resilience and capacity.

New backup infrastructure is to be installed in the two data centres by the end of March 2013. This will allow outstanding backup audit recommendations to be addressed as part of its implementation.

A business case has been written for external consultancy to develop a storage strategy which is a fundamental building block of the Gartner recommendation to simplify and standardise the technologies used. The organisational review and governance work streams recommended by Gartner have also started.

An outage on 26 September 2012 occurred when the power supply failed in the RVH necessitating a full failover of systems to the BCH. This was the third significant outage from 2011 of the power supply to the data centres.

Following an independent review commissioned by BSO ITS the power configuration in the RVH datacentre has been checked and reconfigured by Belfast Trust Estates Department to enhance resilience. The power configuration in BCH was similarly checked and reconfigured where necessary in February 2013.

Despite this, a further recent outage occurred on the 21st March during the extreme weather when the unstable power environment caused problems with the air-conditioning units and consequent problems in the data-centres. This outage is currently under investigation and ITS are pursuing solutions with Belfast Trust Estates.

During 2012, ITS have negotiated a Service Level Agreement (SLA) with BHSCT Estates

on the management of the facilities, however it must be noted that Belfast Trust refuse to agree availability and resilience targets around the stability of the electrical power supply arguing that the third-party source of power in Northern Ireland is inherently unstable. Furthermore, Belfast Trust have stressed that in the event of power failure, patient-related services are their first priority ahead of the data-centres. Given this, ITS are examining all options of strengthening the current environment and support for this highly critical regional service.

The development of an outline business case, led by DFP, to move a range of public bodies to shared data centre facilities is underway. BSO is currently completing an outline business case which will complement the DFP Business case. Strategic and funding support is being sought from the Department and ICT Commissioners at the HSCB.

BSO continue to risk-manage the ITS service through the service and corporate risk process and a Board level sub group was also established to oversee this. The matter was raised at BSO Board and Departmental level and BSO have written to Belfast Trust on a number of occasions outlining concerns.

15.5 *PaLS Management of Contracts*

Following correspondence on the use of Single Tender Actions (STAs) from Dr Andrew McCormick, Permanent Secretary in June 2011 BSO PaLS carried out a full review of regional contracts, identifying those which had been extended beyond their original duration for a range of reasons, including the lapsing of previous national contracts.

During their substantive year end fieldwork NIAO, in light of the issues arising from Internal Audit's 2011/12 review of the Management of Contracts, performed a detailed review of the PaLS contracts database and identified 21 tender actions which are affected during 2011/12. A number of contracts within these tender actions (eight contracts with a value of £2.5million) were supplied to HSC bodies via the BSO PaLS warehouse. NIAO considered these contracts to be in breach of EU procurement regulations and modified their audit opinion on the BSO's Financial Statements for the year ended 31 March 2012 as a result and attached a report thereto.

As a result of this review BSO initiated a full Recovery Panning process in 2012/13 to address the issues concerned. The work undertaken has been scrutinised by a DHSSPS Procurement Oversight Group and by internal audit during that period. It is estimated that 89% of all contracts had been taken through a compliant process by the end of the 2012/13 year, which is in excess of the requirement within the plan submitted to PoG at the outset of the work. Furthermore, it is estimated that £xxx of expenditure processed through the BSO PaLS warehouse is deemed to be potentially irregular in the 2012/13 financial year as a result of the lead time in regularising the position associated with these contracts. This position is subject to audit.

A Procurement Project Group has been established under the chairmanship of the BSO Chief Executive to take forward a number of strands of work in 2013/14. These are:

- a. Enhanced training for procurement staff
- b. Workforce Planning for PaLS
- c. Organisational Review of structures and processes within PaLS
- d. Monitoring and Information systems
- e. Governance arrangements
- f. Progress against the DHSSPS Procurement Review recommendations

In addition to all of the above, clarification is awaited from CPD on the matter of

irregularity, in the context of above threshold procurements where the direct award contract has been appropriately authorised.

15.6 *Shared Services*

The ability to progress significantly on the establishment of Shared Service Centres for Finance and HR services has been delayed by a number of factors including:

- a. The delayed approval of the OBC for the accommodation of the 4 new centres, and the impact on the proposed accommodation schemes at each site;
- b. The impact of difficulties in stabilising the performance of the FPL and HRPTS systems with those organisations who have gone live, the delays in securing the full functionality on aspects of these systems, and the need to re-plan the systems roll-out for both FPL and HRPTS systems with HSC Trusts, prior to the transition to share services;
- c. The difficulties and delays in appointing senior staff and securing resources from the BSTP systems projects to implement the plan to establish Shared Services.

The principles of the proposed re-plan of the Shared Services project have been agreed by the BSTP Programme Board, and a full re-plan based on a pathfinder and staged transition to Shared Services is being prepared, based on a number of assumptions on the above. The impact of the delay and the mitigating steps which have been taken or are planned has been reflected in the BSO risk register and within the BSTP Programme risk registers.

16. **Internal Governance Divergences - Identification of new issues in the current year and anticipated future issues.**

16.1 *Food Labelling*

During the final quarter of 12/13, suppliers identified problems with a number of fresh and frozen Beef products supplied to HSC, against BSO regional contracts. Tests showed the presence of horse, pig and sheep meat in a small number of products. Steps were taken to segregate and return affected produce which had been delivered, and a hold was put on further deliveries of the affected products. Steps have been taken with the supplier of the fresh beef products to ensure corrective actions have been taken, and assurances will be in place before supply is re-commenced to HSC. Close contact continues with FSA and STS, the HSC test house, for professional advice and guidance on any matters which arise.

16.2 *Stock Accounting*

Following the identification of a number of incidences of inconsistent / unusual charging of PaLS warehouse issues to HSC organisations, a detailed investigation was carried out by the Finance Procurement and Logistics (FPL) system supplier to identify possible root causes. This investigation concluded that a number of factors were corrupting the stock price held within the system and generating erroneous charges to HSC organisations. A number of actions were taken to address the stock price corruption and charging irregularities however these have yet to be satisfactorily resolved and further anomalies have been identified in a number of other accounts directly linked to stock. The system supplier has included the actions required to satisfactorily resolve these issues within its Corrective Action Plan.

Without complete resolution, these issues are very significant. From a statutory accounting perspective they are potentially material for the 2012/13 annual accounts for BSO and other HSC organisations. They also have a very direct impact on the ability of BSO and, potentially, other HSC organisations to manage their respective financial positions for

2012/13 - the as yet unknown outworkings will impact on the bottom line of all HSC organisations. Finally, there are ramifications on the BSO's ability to meet its Faster Closing financial reporting obligations

16.3 **BSTP**

The Business Services Organisation has responsibility for overseeing and co-ordinating the work of the Business Systems Transformation Programme. During the 2012/13 year, two systems were introduced into HSC to replace outdated systems: the Finance Procurement and Logistics System and the Human Resources Pay and Travel System. It is intended that these systems in HSC organisations will improve efficiency and performance of the HSC. The implementation of this system in HSC Organisations and in a shared services environment is expected to generate savings of almost £120 million over a 10 year period across all HSC bodies.

Finance Procurement and Logistic System (FPL)

The FPL system was implemented within BSO (core Finance only) and PaLs (Logistics only) on 15th October 2012, Western and the Belfast Trusts and remaining BSO staff (End Users) on 5th November 2012. A number of technical and operational issues have been highlighted, some elements of the system have worked well from the start, but others have encountered difficulties. The third stage of the project which was due to Go live date on 17th December 2012 was postponed until corrective action is complete.

Human Resource, Payroll and Travel System (HRPTS)

The HRPTS system was rolled out to BSO Finance payroll and HR staff in December 2012 with MSS and ESS rolled out to BSO and regional organisations on a phased approach. Currently 2337 people are actively using the new system. Further roll out of the system has been delayed due to on-going issues relating to:

- The GL Posting interface between FPL and HRPTS
- A small number of critical change requests that will not be available for next stage go-live roll out.

BSTP Programme Board is currently not in a position to confirm the timeline for further roll out of the FPL and HRPTS to remaining organisations but believe that this will be in the near future.

As highlighted under para **xx**, Internal audit carried out a number of audits in respect of BSTP. These reports identified a number of weaknesses in respect of categorisation and presentation of the BSTP risk register to the Programme Board, lack of evidence of meetings of the Quality Assurance Group and formal approval of the governance structure. All of these recommendations have now been fully implemented.

The Auditor also noted that certain tests were not fully completed until the week leading Go Live, that detailed rollback and continuity procedures were not fully documented and that over one thousand redundancy test/generic accounts were active on the FPL system in production database. (response to be inserted)

16.4 **Risk of System failure resulting in non delivery of crucial goods/ services to Trusts**

The difficulties in stabilising the FPL system, and securing the functionality and adequate interfacing between the warehouse management and procurement/financial systems have had a significant impact on the performance of the PaLS Logistics service which provides fast moving consumable products to Trusts. This has resulted in significantly reduced service levels over the period since the introduction of the new FPL system, and the need to

institute emergency process with Trusts to minimise or avoid impacting direct services. A number of mitigating actions have been taken or are planned to improve operation and reinstate the Logistics service at performance levels required by the SLA with HSC bodies, a number of these are part of a Corrective Action Plan with the FPL supplier, and the remainder are steps which will be or have been taken internally within BSO to improve performance levels from the Logistics Service.

16.5 ***Late Payment of Commercial Debt***

The Late Payment of Commercial Debt Regulations 2013 came into force on the 16th March 2013. The Regulations amend the Late Payment of Commercial Debt (Interest) Act 1998 by introducing a maximum payment period of up to thirty days where the purchaser/supplier is a public authority. This means that the BSO, as well as all other public authorities, is required to pay suppliers within thirty calendar days of receipt of an invoice (although the authority does have a period of up to thirty days to confirm that the goods or services they have received from the supplier conform with the contract before the payment period commences). If payment is not made within the thirty days, the public authority is required to pay a fixed penalty amount based on the value of the unpaid debt, plus interest for every day the payment is late, where the supplier pursues the claim. The interest is to be calculated at 8% apr above the Bank of England's reference rate.

The Regulations do not apply to contracts made before the 16th March 2013.

These Regulations impose a significant burden on BSO as it manages procedures around the payment of invoices, and there is a risk that the Organisation will not make payment of some invoices within the stipulated period, and will therefore be exposed to potential claims from suppliers. The Organisation is endeavouring to mitigate such risks.

16.6 ***New Information Governance Control Assurance Standard***

It is anticipated that the new Information Governance Standard may require detailed work throughout the year to ensure substantive compliance. This may have resource implications for the organisation.

17. **Conclusion**

The Business Services Organisation has a rigorous system of accountability which I can rely on as Accounting Officer to form an opinion on the probity and use of public funds, as detailed in Managing Public Money NI.

Further to considering the accountability framework within the Body and in conjunction with assurances given to me by the Head of Internal audit, I am content that the Business Services Organisation has operated a sound system of internal governance during the financial year 2012 -13.