



**REPORT TO:** East Lothian IJB – Audit and Risk Committee

**MEETING DATE:** 4 June 2019

**BY:** Senior Auditor, East Lothian Council

**SUBJECT:** Internal Audit Report – Budget Monitoring

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## **1 PURPOSE**

- 1.1 To inform the Audit and Risk Committee of the recently issued audit report on Budget Monitoring.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Risk Committee note the contents of the audit report.

## **3 BACKGROUND**

- 3.1 A review of Budget Monitoring was recently undertaken as part of the Audit Plan for 2018/19.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the Budget Monitoring arrangements operating within the IJB.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 ENGAGEMENT**

- 4.1 The findings from the review have been discussed with Management, but do not require wider engagement.

## **5 POLICY IMPLICATIONS**

- 5.1 None

## **6 INTEGRATED IMPACT ASSESSMENT**

6.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **7 RESOURCE IMPLICATIONS**

7.1 Financial - None

7.2 Personnel - None

7.3 Other - None

## **8 BACKGROUND PAPERS**

8.1 None

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INTERNAL AUDIT REPORT  
ON  
BUDGET MONITORING

Date: May 2019

Ext: 7311

**EAST LoTHIAN IJB – INTERNAL AUDIT  
BUDGET MONITORING**

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## **EAST LoTHIAN IJB – INTERNAL AUDIT BUDGET MONITORING**

### **1. INTRODUCTION**

- 1.1 As part of the Audit Plan for 2018/19, a review was undertaken of the budget monitoring arrangements operating within the East Lothian IJB.
- 1.2 Our main findings, recommendations and action plan from the review, form the basis of this report.

### **2. OBJECTIVE**

- 2.1 The main objective of the audit was to review the adequacy and effectiveness of the budget monitoring arrangements operating within the IJB.

### **3. FINDINGS**

#### **3.1 Integration Scheme**

- 3.1.1 The East Lothian Integration Scheme outlines the arrangements for financial reporting to the IJB:

- Budgetary control and monitoring reports (in such form as the Integration Board may request from time to time) will be provided to the Integration Joint Board by the Parties as and when requested by the IJB. These reports will present the actual and forecast positions of expenditure compared to operational budgets for delegated functions and highlight any financial risks and areas where further action is required to manage budget pressures.
- The Parties will devise a sustainable model to support financial reporting to the new IJB. Until that model is in place, the Parties will provide the required information on operational budgetary performance from their respective finance systems, and this will be co-ordinated and consolidated by the Chief Finance Officer to provide reports to the IJB on all the IJB's integration functions.

- 3.1.2 The Integration Scheme further outlines the process for addressing variances in the spending of the IJB namely:

- Where financial monitoring reports indicate that an overspend is forecast on NHS Lothian or East Lothian Council's operational budget for delegated functions, the relevant Party should take immediate and appropriate remedial action to prevent the overspend.
- In the event that such remedial action will not prevent the overspend, then the Chief Finance Officer will, together with the relevant Party, develop a proposed recovery plan to address the forecast overspend. The Chief Finance Officer will then present the recovery plan to the Integration Joint Board as soon as practically possible. The Integration Joint Board has to be satisfied with the recovery plan, and the plan is subject to its approval.
- Where such recovery plans are projected to be unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the parties may make additional payments to the Integration Joint Board.

3.1.3 In respect of underspends, the Integration Scheme states that in the event of an underspend in one or more operational budgets, if the underspend is fortuitous, and unrelated to any IJB direction, then the underspend should be returned to the affected Party. The IJB will retain all other underspends.

## **3.2 Financial Regulations**

3.2.1 We note that Financial Regulations were adopted by the IJB on 29 October 2015. In respect of budget monitoring, the IJB Financial Regulations state:

- The Chief Finance Officer will provide to the IJB regular budget monitoring reports along with explanations for any significant variances from budget and remedial action planned.
- The Integration Scheme lays out the arrangement for the management of budget variances within the IJB's operational budget – that is the resources that have been allocated to NHS Lothian and East Lothian Council to undertake the functions delegated. The Chief Officer and the Chief Finance Officer will prepare and present to the IJB arrangements for the financial management of these variances. This will be laid out in the financial directives.

## **3.3 Monitoring Arrangements**

3.3.1 We sought to review the budget monitoring arrangements in place for the IJB and we looked in detail at financial years 2017/18 and 2018/19. We note that regular financial update reports have been presented to the IJB by the Chief Finance Officer and our review of reports presented to the IJB in respect of 2017/18 highlighted the following:

- At the March 2017 meeting, the IJB received a report laying out the financial assurance around its proposed 2017/18 budget. The financial assurance considered the budgetary offers made by partners to the IJB and examined an analysis of the financial challenges within these offers. The analysis showed that a total of £3.8 million of financial pressures had been identified with £3.3 million of plans available to support these pressures and a projected gap of £0.5 million for which plans had still to be developed.
- Further updates on the 2017/18 financial position were reported to the IJB in June 2017, August 2017, October 2017 and December 2017. The October 2017 and December 2017 updates reported the actions taken by the Chief Officer and Chief Finance Officer to address the forecast overspend – a key element was the preparation of a recovery plan. We note that details of an outline health recovery plan were included in the October 2017 report and details of the social care recovery plan were included in the December 2017 report.
- The December 2017 report provided details of the “IJB overspend resolution escalation flowchart”, based on the provisions of the Integration Scheme, and provided details of the initial steps to be taken – where there is a forecast overspend, the operational partner takes remedial action (step 1), if the overspend remains then the Chief Finance Officer should develop a recovery plan (step 2) which should be approved by the IJB.
- The financial position update presented to the IJB in March 2018 identified a forecast overspend of approximately £1.0 million. The report further highlighted that the partners had prepared recovery plans (step 1), however step 2, whereby the Chief Finance Officer prepares a recovery plan for approval by the IJB, had not happened.
- The May 2018 report on the financial outturn for 2017/18 indicated that £871,000 of additional support would be required from the partners to allow the IJB to

achieve a break-even position, however the audited annual accounts for 2017/18 highlighted an (improved) initial year end position of £686,000 overspent, which comprised of an underspend of £250,000 within the health part of the budget and an overspend of £936,000 within the social care part of the budget. We note that the IJB directed the underspend in health to be moved to support the initial overspend in social care and thereafter the partners provided £686,000 of additional support to achieve a year end break-even position.

3.3.2 Our review of reports presented to the IJB in respect of 2018/19 highlighted the following:

- The IJB agreed its 2018/19 budget at its meeting in May 2018 and an update report was presented to the IJB in June 2018 which identified financial pressures of £3.0 million for 2018/19.
- Further financial update reports were presented to the IJB in August 2018 and September 2018. The August 2018 report highlighted an overspend in the East Lothian Council Adult Wellbeing budget, while the September 2018 report provided details of the steps to be taken in seeking a resolution of the 2018/19 projected financial pressures, including the development of a tri-partite recovery plan.
- Financial position reports were presented to the IJB in October 2018 and December 2018. Both reports highlighted a projected underspend within the health budget of the IJB and a projected overspend within the social care budget of the IJB, which was not expected to improve. The December 2018 report stated that the current position and financial projections highlight the need to put in place financial recovery actions and that the partnership has developed financial recovery actions to allow an improved social care position to support bringing the overall financial position for the IJB in 2018/19 back into balance.
- The financial position report of February 2019 informed the IJB that the IJB's overall financial position as at the end of December 2018 was £764,000 overspent, although the financial update report to the IJB in March 2019 reported an (improved) forecast outturn of £310,000 overspent (with forecast overspends in Social Care and Set Aside being partially offset by forecast underspends in the Core and Hosted budgets).
- The March 2019 report further highlighted that dialogue was ongoing with NHS Lothian with a view to the IJB retaining the projected underspend within the health delegated budgets to support balancing the overall financial position (i.e. to use the health underspend to partly offset the social care overspend). The report further stated that as the projected overspend in social care is larger than the projected underspend in the health delegated budgets, the IJB will be looking to East Lothian Council for further financial support to balance off any remaining overspend.
- We note however that the draft year end outcome for 2018/19 showed a marked improvement in the social care position – there was an underspend of £310,000 in the social care budget, which combined with an underspend of £776,000 in the health budgets gave an overall IJB underspend of £1,086,000. We further note that both partners (NHS Lothian and East Lothian Council) have confirmed that the IJB can retain these underspends.

3.3.3 From our review of the budget monitoring arrangements in place for 2017/18 and 2018/19, we found that regular reports were being presented to the IJB outlining the current position of the operational budgets for delegated functions and the projected year end outturn. We note that the reports make reference to the recovery actions that are required to achieve a break-even position. We further note that in both 2017/18

and 2018/19 the actual/projected final outturn was significantly better than had been initially predicted earlier in the financial year, however there remains a risk that recovery plans are developed too late in the financial year to have the desired effect of preventing year end overspends. This is also a risk that the IJB relies on the remedial actions being taken by the partners, rather than the IJB itself preparing a recovery plan, which should be formally approved (and then monitored) by the IJB in line with the provisions of the Integration Scheme.

### 3.4 Financial Recovery Plans

3.4.1 The financial update report presented to the IJB in March 2019, highlighted that the financial outlook for 2019/20 will be challenging with continued financial pressures. The report further stated that in light of the anticipated financial challenges ahead, the Health and Social Care Partnership (HSCP) have requested savings and financial recovery plans from all service managers by the end of March 2019.

3.4.2 We note that for 2019/20, the Chief Finance Officer has introduced monthly Financial Overview meetings at which savings plans will be monitored. A Financial Overview Template has been created, which will be completed for each service area and requires service managers to provide information on:

- Year to date financial position – budgeted expenditure, actual expenditure, variance and forecast outturn.
- Key financial pressures driving the position.
- Key financial risks/emerging pressures.
- Savings/financial recovery actions.

3.4.3 We further note that an IJB development session was held in May 2019 at which savings ideas to support the 2019/20 savings targets included in the social care budget were discussed.

## 4. CONCLUSIONS

4.1 The financial outlook for the East Lothian IJB remains challenging with anticipated continued financial pressures ahead. Our review has highlighted that the internal controls and procedures established by Management are operating satisfactorily in a number of areas, including the IJB being provided with regular reports on the operational budgets for delegated functions and improved arrangements being put in place for the identification and monitoring of savings targets.

4.2 Areas identified with scope for improvement include the monitoring arrangements in place to ensure that planned efficiencies are being achieved and recovery plans are having their desired effect. We note however, that improved procedures have been introduced by the Chief Finance Officer for 2019/20, including the identification of required savings and financial recovery plans at the start of the financial year and regular Financial Overview meetings being held to monitor the achievement of savings targets and planned efficiencies.

4.3 Internal Audit can provide **reasonable assurance** on the adequacy and effectiveness of the arrangements in place within the IJB for budget monitoring.

4.4 The weaknesses identified during the course of our audit have been brought to the attention of Management. The weaknesses outlined are those, which have come to



our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. Although we include recommendations, it is the responsibility of Management to determine the extent of the budget monitoring arrangements within the IJB.

- 4.5 The content of this report has been discussed with the Chief Finance Officer to confirm factual accuracy. The assistance and cooperation received during the course of our review is gratefully acknowledged.

## 5. ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	Where forecast overspends are identified in the operational budgets for delegated functions, monitoring arrangements should be in place to ensure that planned efficiencies are being achieved and recovery actions are having their desired effect.	Medium	Chief Finance Officer	Agreed		Now in place for 2019/20.
5.2	In the event that the remedial action taken will not prevent an overspend occurring, the Chief Finance Officer, together with the relevant partner, should develop a recovery plan to address the forecast overspend – the recovery plan should be presented to the IJB for approval.	Medium	Chief Finance Officer	Agreed		As and when required.

## 6. Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

## 7. Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
<b>Substantial Assurance</b>	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
<b>Reasonable Assurance</b>	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
<b>Moderate Assurance</b>	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
<b>No Assurance</b>	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.