



REPORT TO: East Lothian IJB – Audit and Risk Committee

MEETING DATE: 15 September 2020

BY: Chief Internal Auditor

SUBJECT: Internal Audit Report – Financial Planning

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Financial Planning was undertaken since the last Audit and Risk Committee as part of the Audit Plan for 2019/20.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the arrangements for Financial Planning 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 DIRECTIONS

- 7.1 The subject of this report does not require any amendment to or creation of Directions.

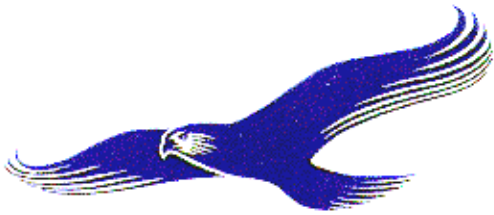
8 RESOURCE IMPLICATIONS

- 8.1 Financial - None
- 8.2 Personnel - None
- 8.3 Other – None

9 BACKGROUND PAPERS

- 9.1 None

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DATE	4 September 2020



East Lothian
Integration Joint Board



East Lothian Integration Joint Board
Financial Planning
June 2020

Conclusion

Reasonable Assurance

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1 Executive Summary: Financial Planning

Conclusion: Reasonable Assurance

The East Lothian Integration Joint Board has a sound system of internal control in place for financial planning, a medium term rolling five year financial plan (the financial plan) is now in place for the period from 2019/20 to 2023/24. However the audit has identified some improvements that require to be implemented including the approach adopted for projecting social care expenditure growth in the latter years of the financial plan, the accuracy of information included in the reporting of financial reviews and the presentation of the financial plan to the East Lothian Integration Joint Board.

Background

The Public Bodies (Joint Working) Scotland Act 2014 aimed to provide better connected and co-ordinated services for adults through the integration of health and social care services. NHS Lothian participates in four joint boards that are responsible for directing the provision of delegated functions.

In 2016 the East Lothian Integration Joint Board (ELIJB) produced its first Strategic Plan for the period from 2016 to 2019. The current plan in place is for the period from 01 April 2019 to 31 March 2022. The ELIJB outlined its overall Financial Strategy in February 2018 – the strategy is a series of principles which underpins the redesign of the service delivery of the ELIJB’s functions to both manage down the costs and provide capacity to manage further demand. The ELIJB is required to prepare a multi-year financial plan which lays out how the ELIJB will resource the delivery of its Strategic Plan.

Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have been **agreed by the Chief Finance Officer**:

- The report presented to the East Lothian Integration Joint Board on 27 June 2019 requesting that the financial plan be formally approved did not clearly state that indicative budget offers had not been received from East Lothian Council for financial years 2022/23 and 2023/24 and that the figures included for both years were simply the offer received for 2021/22. *Management have agreed to provide this clarity in the presentation of the five year financial plan. This recommendation will be implemented **by September 2020**.*
- The arrangements currently in place for projecting social care expenditure growth in the latter years of the financial plan require review. *Management have agreed to review the approach adopted **by December 2020**.*
- Adequate monitoring arrangements are in place to ensure that the financial plan is reviewed on a regular basis, however we found two minor anomalies in one of the reports presented to the East Lothian Integration Joint Board. *Management have agreed to ensure checking procedures are in place for reports presented to the East Lothian Integration Joint Board **by September 2020**.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Financial Planning	-	2	1	3

Materiality

The East Lothian Integration Joint Board (ELIJB) had a budget of £157.5million in 2019/20 which will rise to a projected budget of £160.5 million in 2023/24. The ELIJB receives approximately two thirds of its funding from NHS Lothian and one third from East Lothian Council.

2 Headlines

Objectives	Conclusion	Comment
1. The East Lothian IJB has an appropriate medium term financial plan in place.	Reasonable	We found that a financial plan is now in place for the period from 2019/20 to 2023/24 and was formally approved by the East Lothian Integration Joint Board on 27 June 2019. However the covering report did not clearly state that indicative budget offers had not been received from East Lothian Council for financial years 2022/23 and 2023/24.
2. A clear audit trail exists to ensure that the information provided in the financial plan is accurate and complete.	Reasonable	There was a clear audit trail for the income and expenditure figures included in the individual financial plans and in the East Lothian Integration Joint Board's financial plan. However we found that the recurring projected social care deficit from the previous year in the ELIJB's financial plan was also included as a budgeted increase in costs for the next financial year. We are informed that this increase had been included to reflect projected increases in social care costs and usage due to an ageing population. A review of this methodology is required.
3. That assumed movements in financial savings and pressures are in line with levels indicated by the Scottish Government through the Medium Term Health and Social Care Financial Framework.	Reasonable	We note that the Scottish Government's Medium Term Health and Social Care Financial Framework guidance states that for the purposes of modelling a growth rate of 4% for social care has been used, however we found that the modelling assumptions used to estimate future costs in the financial plan included 5% growth in social care costs. We were informed that a higher percentage was used because of the growing population in East Lothian. For NHS Lothian services the financial plan was prepared based on information from NHS Lothian finance i.e. pay awards were modelled in full based on the NHS pay deal, medicines growth was based on detailed horizon scanning completed in conjunction with pharmacy colleagues etc.
4. Adequate monitoring of the financial plan is carried out on a regular basis.	Reasonable	We note that there was adequate monitoring of the financial plan in 2019/20, however we found two minor anomalies in one of the reports presented to the East Lothian Integration Joint Board. It is recommended that reports are fully reviewed before submission to the East Lothian Integration Joint Board to ensure accuracy and completeness of reporting.
5. There is a correlation between the ELIJB's financial plan and the planning carried out by East Lothian Council and NHS Lothian.	Reasonable	From our review of the East Lothian Integration Joint Board's (ELIJB) financial plan, we found that it incorporates the financial plans of both East Lothian Council and NHS Lothian. Regular meetings are held by the Chief Finance Officer with East Lothian Council and NHS Lothian to discuss any changes and to reflect revised in year financial outturns. We are satisfied that there is appropriate correlation between the ELIJB's financial plan and the planning carried out by East Lothian Council and NHS Lothian.

3 Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	A medium term rolling five year financial plan is now in place for the period from 2019/20 to 2023/24 and was formally approved by the East Lothian Integration Joint Board on 27 June 2019.
2.	Adequate monitoring arrangements are in place to ensure that the financial plan is reviewed on a regular basis.
3.	Appropriate arrangements are in place to ensure that there is a correlation between the ELIJB's financial plan and the planning carried out by East Lothian Council and NHS Lothian.

4 Detailed Recommendations

The East Lothian IJB has an appropriate medium term Financial Plan in place.

Objective: 1	Findings & Risk 1	Grade	Recommendation
	<p>The East Lothian Integration Joint Board is required to prepare a multi-year financial plan which lays out how it will resource the delivery of its Strategic Plan. We sought to establish that an appropriate medium term financial plan was in place.</p> <p>We found that the East Lothian Integration Joint Board initially produced a 3 year financial plan for the period from 2018/19 to 2020/21, however a new medium term rolling five year financial plan is now in place for the period from 2019/20 to 2023/24 and was formally approved on 27 June 2019.</p> <p>The report presented to the East Lothian Integration Joint Board on 27 June 2019 requesting that the financial plan be formally approved did not clearly state that indicative budget offers had not been received from East Lothian Council for the financial years 2022/23 and 2023/24 and that the figures included for both years were simply the offer received for 2021/22.</p> <p>There is a risk of misinterpretation of the five year financial planning figures as a result of a lack of clarity on the assumptions used to create the plan.</p>	Medium	1.1 Management should ensure that the East Lothian Integration Joint Board are clearly informed of any assumptions made in respect of the funding figures included in the financial plan.

Management Response	Responsible Officer & Target Date
Agreed. The ELIJB are fully sighted on the budget offers from both Partners including the indicative values for future years as copies of the letters from the Partners are included in the paper where the budget offers are considered.	Chief Finance Officer September 2020

4 Detailed Recommendations

There is a clear audit trail for the income and expenditure included in the Financial Plan.

Objective 2	Findings & Risk 1	Grade	Recommendation
	<p>We checked to ensure that a clear audit trail exists for the income and expenditure figures included in the East Lothian Integration Joint Board's (ELIJB) financial plan from 2019/20 to 2023/24. The following points were noted:</p> <ul style="list-style-type: none"> ➤ The individual financial plans produced for East Lothian Council and NHS Lothian included funding based on the formal budget offers for 2019/20, together with the indicative budget offers for future years. We note that these figures were added together to produce the total funding in the ELIJB's financial plan. ➤ The expenditure for social care in the ELIJB's financial plan included a 5% yearly forecast increase in costs due to the increasing population in East Lothian. However we found that the recurring projected social care deficit from the previous year was also included as a budgeted increase in costs for the next financial year. We are informed that this increase had been included to reflect projected increases in social care costs and usage due to an ageing population. A review of this methodology is required. ➤ For NHS Lothian services the plan was prepared based on information from NHS Lothian finance i.e. pay awards were modelled in full based on the NHS pay deal, medicines growth was based on detailed horizon scanning done in conjunction with pharmacy colleagues etc. <p>There is a risk that the assumptions used in the later years of the financial plan do not provide full clarity.</p>	Medium	2.1 Consideration should be given to reviewing the approach currently adopted for projecting social care expenditure growth in the latter years of the ELIJB's financial plan.

Management Response	Responsible Officer & Target Date
Agreed. The ELIJB's financial plan continues to be developed and refined, however there is a limit to the assumptions that can be applied in the later years of the plan.	Chief Finance Officer December 2020

4 Detailed Recommendations

Monitoring of the Financial Plan			
Objective 4	Findings & Risk 1	Grade	Recommendation
	<p>Regular monitoring of the 2019/20 financial position was carried out and revised forecast outturns were produced throughout the year – the position changed from a projected deficit of £1.526m to a forecast £444k under spend. The Chief Finance Officer held regular meetings with both East Lothian Council and NHS Lothian to discuss the changes and the revised in year financial outturns.</p> <p>However we found that the report presented to the East Lothian Integration Joint Board on 05/12/2019 in respect of the Financial Position for 2019/20 and the Financial Forecast for 2020/21 included two minor anomalies – the narrative in the report did not include the value of the revised set aside outturn and the movement between the August forecast outturn and the outturn at the end of quarter 2 was presented as a negative value of £611k rather than a positive value of £611k. It is felt that a positive value for the movement would have represented this favourable change more appropriately.</p> <p>There is a risk that reported figures are interpreted incorrectly.</p>	Low	<p>4.1 Management should ensure that appropriate checking procedures are in place for reports presented to the East Lothian Integration Joint Board.</p>

Management Response	Responsible Officer & Target Date
<p>Agreed.</p>	<p>Chief Finance Officer</p> <p>September 2020</p>

Appendix A Recommendation Grading/Overall Opinion

Recommendation	Definition
High	Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance	Definition
Substantial Assurance	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.
Reasonable Assurance	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.
Moderate Assurance	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.
Limited Assurance	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.
No Assurance	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.

Appendix B Resource, acknowledgements & distribution list

Internal Audit	
Service Manager – Internal Audit: Duncan Stainbank	Senior Auditor: Andrew Steven

Review Dates	Completed By Date
Internal Audit Draft Report Submission	05/06/2020
Management Review Completion	08/06/2020
Final Report Issue	12/06/2020

Report Distribution	
Chief Officer East Lothian IJB	Chief Finance Officer
Audit & Risk Committee Members	Audit Scotland

Acknowledgements.

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 a number of specific recommendations, it is the responsibility of Management to determine the extent of the internal control systems appropriate to the Financial Planning of the East Lothian Integration Joint Board.

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 audit is gratefully acknowledged.