



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

**MEETING DATE:** 6 December 2022

**BY:** Chief Internal Auditor

**SUBJECT:** Internal Audit Report – CIPFA Financial Management Code

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## **1 PURPOSE**

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

## **2 RECOMMENDATION**

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

## **3 BACKGROUND**

- 3.1 An assurance review of Risk Management has been undertaken as part of the Audit Plan for 2022/23.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the arrangements in place for implementing the CIPFA Financial Management Code within the East Lothian IJB.
- 3.3 The main findings from our audit work are outlined in the attached report which has been graded Reasonable Assurance.

## **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.

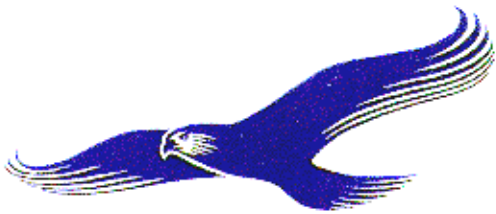
## **8 RESOURCE IMPLICATIONS**

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

## **9 BACKGROUND PAPERS**

- 9.1 None

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<b>DATE</b>	29 November 2022



East Lothian  
**Integration Joint Board**



East Lothian Integration Joint Board  
CIPFA FM Code  
November 2022

**Conclusion**

Reasonable Assurance

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# 1 Executive Summary: CIPFA FM Code

## Conclusion: Reasonable Assurance

The East Lothian Integration Joint Board has adequate arrangements in place for complying with the majority of the standards within the CIPFA FM Code. However the audit has identified some improvements that require to be implemented, including formally adopting the appropriate elements of the CIPFA FM Code, preparing a new five-year financial plan, clarifying if the financial reserves are adequate for financial sustainability moving forward and undertaking an exercise to review financial resilience and sustainability.

### Background

The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the CIPFA FM Code sets out the standards of financial management for local authorities. The East Lothian Integration Joint Board is governed by the Local Authority regulations and the report presented to the East Lothian IJB – Audit & Risk Committee on 15 March 2022 recommended that the East Lothian Integration Joint Board consider what elements of the CIPFA FM Code were relevant to the Board. This audit will confirm the extent to which the CIPFA FM standards are embedded within the East Lothian Integration Joint Board’s financial management processes. It is recognised that longer term financial reviews are now recommencing following delays due to the pandemic, and plans are now in place to exit Covid-19 funding.

### Summary of findings & recommendations

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

- The East Lothian Integration Joint Board has not formally approved the adoption of the CIPFA FM Code to support good practice in financial management and to assist with demonstrating financial sustainability. *Management have agreed to prepare a report to the East Lothian Integration Joint Board recommending that the Board formally adopt the appropriate elements of the CIPFA FM Code **by December 2022**.*
- While the East Lothian Integration Joint Board have an approved reserves policy in place and the annual budget report for financial year 2022/23 confirmed that the financial reserves met the target in the reserves policy, the report did not clarify if the financial reserves were adequate for financial sustainability moving forward. *Management have agreed to update the annual budget report with further clarification on the adequacy of financial reserves **by April 2023**.*
- The East Lothian Integration Joint Board has yet to prepare an updated multi-year financial plan based on the final budget offers from the financial partners, laying out how it will resource the delivery of its strategic plan. *Management have agreed to prepare a new financial plan **by December 2022**.*
- Discussions have previously been held on the financial gap in the budgets, however an exercise has not been undertaken to identify financial resilience and sustainability in relation to the CIPFA FM Code. *Management have agreed to undertake an exercise to review financial resilience and sustainability following the approval of the financial plan **by April 2023**.*

### Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	-	4
Prior Report	N/A	N/A	N/A	N/A*

### Materiality

The East Lothian Integration Joint Board had a budget of £165.8 million in 2021/22 and an annual budget of £179 million in 2022/23. The East Lothian Integration Joint Board receives approximately two thirds of its funding from NHS Lothian and one third from East Lothian Council.

\* No prior report exists for the CIPFA FM Code.

## 2 Headlines

Objectives	Conclusion	Comment
1. The CIPFA FM Code has been formally adopted by the East Lothian Integration Joint Board.	Reasonable	The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating financial sustainability. A report was presented to the East Lothian IJB – Audit and Risk Committee on 15 March 2022 requesting that the Board consider what elements of the Code are relevant to the East Lothian Integration Joint Board and that a further report should be presented laying out the opinions of the Board, with a view to formally adopting the appropriate elements of the CIPFA FM Code. However the Interim Chief Finance Officer left in May 2022 and to date the East Lothian Integration Joint Board have not formally adopted the appropriate elements of the CIPFA FM Code.
2. Arrangements are in place to comply with the relevant CIPFA financial management standards.	Reasonable	The CIPFA FM Code has 17 standards in total and we found that two standards do not apply to the East Lothian Integration Joint Board as they are the responsibility of the financial partners (A – Value for Money and H – Capital Finance) and three standards are covered in objective 3 below. FM standard E states that the financial management style of the authority supports financial sustainability. However the East Lothian Integration Joint Board has yet to prepare an updated multi-year financial plan based on the final budget offers from the financial partners, laying out how it will resource the delivery of its strategic plan. Discussions have previously been held on the financial gap in the budgets, however an exercise has not been undertaken to review financial resilience and sustainability in relation to the CIPFA FM Code. From our review, we found that FM standard K requires that the budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. While the East Lothian Integration Joint Board have an approved reserves policy in place and the annual budget report for financial year 2022/23 confirmed that the financial reserves met the target in the reserves policy, the report did not clarify if the financial reserves were adequate for financial sustainability moving forward. In Internal Audit’s view the East Lothian Integration Joint Board meets the requirements of the other relevant standards within the CIPFA FM Code.
3. Arrangements are in place to ensure compliance with CIPFA financial management standards B, D and P.	Reasonable	We checked to ensure that the East Lothian Integration Joint Board has appropriate arrangements in place to comply with the relevant CIPFA financial management standards B, D and P, specifically the CIPFA Statement on the Role of the Chief Finance Officer in Local Government, the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016) and the Code of Practice on Local Authority Accounting in the United Kingdom. We found that the East Lothian Integration Joint Board complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. In addition, External Audit have provided appropriate evidence in their annual audit report for financial year 2021/22 that the East Lothian Integration Joint Board have complied with all the material aspects of the Code of Practice on Local Authority Accounting in the United Kingdom and with the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).

### 3 Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	<p>The East Lothian Integration Joint Board complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO) in Local Government. We found that an adequate job description was in place outlining the role and responsibilities of the CFO. The CFO is a CIPFA qualified accountant who reports directly to the Chief Officer of the East Lothian Integration Joint Board. There was adequate evidence available to confirm that the CFO regularly attends meetings of the East Lothian Integration Joint Board and the East Lothian IJB – Audit and Risk Committee, and subsequently influences material business decisions. The CFO is integral to the budget setting process, regular in-year reporting and forecasting, and the preparation of the annual accounts.</p>
2.	<p>CIPFA FM standard P states that the Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the Local Authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. From our review, we found that the annual audit report for financial year 2021/22 provided the following opinions from Audit Scotland: the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework, the governance arrangements are appropriate and operate effectively, there is effective scrutiny, challenge and informed decision making, and arrangements are in place to secure best value. External Audit have provided appropriate evidence that the East Lothian Integration Joint Board have complied with all the material aspects of the Code of Practice on Local Authority Accounting in the United Kingdom.</p>
3.	<p>The annual audit report for financial 2021/22 provides appropriate assurance that the East Lothian Integration Joint Board complies with the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016), as per CIPFA FM standard D.</p>

# 4 Detailed Recommendations

## Adoption of the CIPFA FM Code

Objective: 1	Findings & Risk 1	Grade	Recommendation
	<p>The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.</p> <p>We sought to establish if the CIPFA FM Code has been formally adopted by the East Lothian Integration Joint Board and the following points were noted:</p> <ul style="list-style-type: none"> <li>➤ We found that the report presented to the East Lothian IJB – Audit and Risk Committee on 15 March 2022 requested that the Board consider what elements of the Code are relevant to the East Lothian Integration Joint Board.</li> <li>➤ The report also recommended that a further report should be presented to the East Lothian Integration Joint Board laying out the opinions of the Board with a view to formally adopting the appropriate elements of the CIPFA FM Code.</li> <li>➤ The Interim Chief Finance Officer left in May 2022 and to date the East Lothian Integration Joint Board have not formally adopted the appropriate elements of the CIPFA FM Code.</li> </ul>	<b>Medium</b>	<b>1.1 Management should ensure that the appropriate elements of the CIPFA FM Code are formally approved by the East Lothian Integration Joint Board.</b>

Management Response	Responsible Officer & Target Date
<b>1.1 Agreed – a paper on the adoption of the CIPFA FM Code has been prepared for consideration at the East Lothian Integration Joint Board in December 2022.</b>	<b>1.1 Chief Finance Officer December 2022</b>



# 4 Detailed Recommendations

## CIPFA Financial Management Standards

Objective: 2	Findings & Risk 1	Grade	Recommendations
	<p>The CIPFA FM Code has 17 standards in total and we found that two standards do not apply to the East Lothian Integration Joint Board as they are the responsibility of the financial partners (A – Value for Money and H – Capital Finance) and three standards are covered in objective 3. The following points were noted in relation to the remaining 12 standards:</p> <ul style="list-style-type: none"> <li>➤ CIPFA FM standard E states that the financial management style of the authority supports financial sustainability. 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 were informed that following the update of the strategic plan, a new five-year financial plan for the period from 2022/23 to 2026/27 will be formally approved in December 2022. Discussions have previously been held on the financial gap in the budgets, however an exercise has not been undertaken to review financial resilience and sustainability in relation to the CIPFA FM Code.</li> <li>➤ From our review, we found that CIPFA FM standard K requires that the budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. While the East Lothian Integration Joint Board have an approved reserves policy in place and the annual budget report for financial year 2022/23 confirmed that the financial reserves met the target in the reserves policy, the report did not clarify if the financial reserves were adequate for financial sustainability moving forward.</li> <li>➤ In Internal Audit’s view the East Lothian Integration Joint Board meets the requirements of the other relevant standards within the CIPFA FM Code.</li> </ul>	<b>Medium</b>	<p><b>2.1 Management should ensure that a new five-year financial plan is prepared and formally approved by the East Lothian Integration Joint Board.</b></p> <p><b>2.2 Management should ensure that following the approval of the financial plan an exercise is undertaken to review financial resilience and sustainability in relation to the CIPFA FM Code.</b></p> <p><b>2.3 Management should ensure that the annual budget report includes a statement on the adequacy of the proposed financial reserves.</b></p>

Management Response	Responsible Officer & Target Date
<p><b>2.1 Agreed – the new five-year financial plan will be presented to the East Lothian Integration Joint Board in December 2022.</b></p> <p><b>2.2 Agreed – the financial plan will continue to be developed up to and beyond the 2023/24 budget setting process. In addition, the East Lothian Integration Joint Board’s budget development sessions in January 2023 will review any actions required for financial resilience and sustainability going forward.</b></p> <p><b>2.3 Agreed – a statement on the adequacy of the proposed financial reserves will be included in the budget report.</b></p>	<p><b>2.1 Chief Finance Officer December 2022</b></p> <p><b>2.2 Chief Finance Officer April 2023</b></p> <p><b>2.3 Chief Finance Officer April 2023</b></p>

# A Recommendation Grading/Overall Opinion Definitions

Recommendation	Definition
<b>High</b>	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.
<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.

Levels of Assurance	Definition
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## B Resource, acknowledgements & distribution list

Internal Audit	
Chief Internal Auditor: Duncan Stainbank	Senior Auditor: Andrew Steven

Review Dates	Completed By Date
Internal Audit Draft Report Submission	25 November 2022
Management Review Completion	28 November 2022
Final Report Issue	29 November 2022

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 ensure that adequate arrangements are in place for complying with the CIPFA FM Code for 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.

