



REPORT TO: East Lothian IJB – Audit and Risk Committee

MEETING DATE: 29 June 2022

BY: Chief Internal Auditor

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 An assurance review of Risk Management has been undertaken as part of the Audit Plan for 2021/22.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the arrangements in place for budget monitoring within 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.

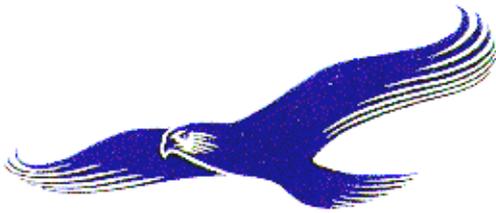
8 RESOURCE IMPLICATIONS

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

9 BACKGROUND PAPERS

- 9.1 None

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DATE	20 June 2022



East Lothian
Integration Joint Board



East Lothian Integration Joint Board Budget Monitoring June 2022

Conclusion

Reasonable Assurance

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1 Executive Summary: Budget Monitoring

Conclusion: Reasonable Assurance

The East Lothian Integration Joint Board has a sound system of internal controls in place for budget monitoring, adequate arrangements are in place for monitoring budgets on a regular basis and the annual budget is correctly built up from the indicative budget offers from both partners. However the audit has identified some improvements that require to be implemented, including preparing a new five year financial plan, a review of the approach adopted for reporting financial out-turns for both partners to the East Lothian Integration Joint Board and the lack of a clear directive for allocating surplus funds to specific strategic objectives.

Background

The East Lothian Integration Joint Board is a strategic body not an operational body, which sets the strategic direction for the delivery of health and social care services in East Lothian – it is responsible for the planning, resourcing and governance of health and social care services.

The East Lothian Integration Joint Board 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 Board’s functions to both manage down the costs and provide capacity to manage further demand. 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 and provides details of the resources that will be used to deliver the functions that have been delegated to the Board.

We note that regular in-year reporting and forecasting is in place to ensure that the East Lothian Integration Joint Board are updated on the operational budgets, however it is the responsibility of NHS Lothian and the Council to take detailed corrective action where appropriate.

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 had not prepared a 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 five year financial plan by December 2022.*
- The arrangements currently in place for reporting projected financial out-turns to the East Lothian Integration Joint Board require review to ensure that a breakdown of the annual budgets and forecasted expenditure are provided for both partners. *Management have agreed to review the approach adopted by September 2022.*
- The East Lothian Integration Joint Board had a projected underspend for financial year 2021/22, however there was a lack of a clear directive for allocating surplus funds to specific strategic objectives. *Management have agreed to create a new Direction for allocating the surplus by December 2022.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	-	4
Prior Report (May 2019)	-	2	-	2

Materiality

The East Lothian Integration Joint Board had a budget of £161.7 million in 2020/21 and an annual budget of £165.8 million in 2021/22. The East Lothian Integration Joint Board receives approximately two thirds of its funding from NHS Lothian and one third from East Lothian Council.

2 Headlines

Objectives	Conclusion	Comment
1. The annual budget is built up from the indicative budget offers from both partners in line with Scottish Government guidance.	Reasonable	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 found that the report presented to the East Lothian Integration Joint Board on 22 April 2021 requested that the final budget offers from East Lothian Council and NHS Lothian be formally approved and a combined budget for 2021/22 was also presented to the Board at this meeting. We checked to ensure that an appropriate medium term financial plan was in place based on the indicative budget offers from both partners, however we found that a five year financial plan had not been prepared and formally approved for the period from 2021/22 to 2025/26.
2. Adequate arrangements are in place for monitoring budgets on a regular basis.	Reasonable	We sought to establish if appropriate budget monitoring arrangements are in place for the East Lothian Integration Joint Board. From our review, we found that regular in-year reporting and forecasting is in place to ensure that the East Lothian Integration Joint Board are updated on the operational budgets – for each of the financial years’ reviewed (2020/21 and 2021/22), we found that regular financial updates had been presented to the Board detailing the updated projected out-turn for each year.
3. Adequate arrangements are in place for reporting projected variances and for providing appropriate details of any corrective action to be taken.	Reasonable	We selected a sample of three financial updates presented to the East Lothian Integration Joint Board in 2020/21 and 2021/22 and checked to ensure that the projected out-turns had been correctly reported and that appropriate details had been provided on any corrective action to be taken. In one case, we found that a breakdown of the annual budgets and forecasted expenditure had been provided for both partners, together with the revised forecasted out-turn, and a comparison was made to the figures reported in the previous financial update. For the remaining two cases however there was a lack of detailed analysis provided, in one case for NHS Lothian and in both cases for East Lothian Council – in one case, the forecast overspend did not agree to the figures reported in East Lothian Council’s financial statement (period 6 in 2021/22) and we were informed that manual adjustments had been made to the figure based on projections for additional funding. In the other case the financial update stated that an overspend in the delegated social care services budget was forecast, however details had not been provided of the actual amount of the overspend.
4. Appropriate arrangements are in place for monitoring the impact of significant variances on the delivery of strategic priorities.	Reasonable	The East Lothian Integration Joint Board’s financial plan incorporates the financial plans of both East Lothian Council and NHS Lothian. From our review of the financial monitoring for 2021/22, we note that an underspend was projected for both partners – NHS Lothian and East Lothian Council, however there was a lack of a clear directive for allocating surplus funds to specific strategic objectives. We were advised that a proposed new Direction seeks to promote the delivery of the strategic priorities with specific funding sources, these earmarked funding streams should be planned and utilised accordingly. This would be managed by the Chief Officer and reported back to the East Lothian Integration Joint Board.

3 Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	The annual budget for the East Lothian Integration Joint Board is built up from the indicative budget offers from both partners in line with Scottish Government guidance.
2.	Appropriate arrangements are in place for monitoring the financial budgets – regular in-year reporting and forecasting is in place to ensure that the East Lothian Integration Joint Board are updated on the operational budgets.

4 Detailed Recommendations

Annual Budgets

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 found that the report presented to the East Lothian Integration Joint Board on 22 April 2021 requested that the final budget offers from East Lothian Council and NHS Lothian be formally approved and a combined budget for 2021/22 was also presented to the Board at this meeting.</p> <p>We checked to ensure that an appropriate medium term financial plan was in place based on the indicative budget offers from both partners, however we found that a five year financial plan had not been prepared and formally approved for the period from 2021/22 to 2025/26.</p>	Medium	1.1 Management should ensure that a new five year financial plan is prepared and formally approved by the East Lothian Integration Joint Board.

Management Response

Responsible Officer & Target Date

1.1 Agreed – although future years’ projections have been reported and noted by the East Lothian Integration Joint Board, a standalone financial plan has not been reported. A new five year financial plan will be produced later in the year.

**1.1 Chief Finance Officer
December 2022**

4 Detailed Recommendations

Financial Updates			
Objective 3	Findings & Risk 1	Grade	Recommendations
	<p>We selected a sample of three financial updates presented to the East Lothian Integration Joint Board in 2020/21 and 2021/22 and checked to ensure that the projected financial out-turns had been correctly reported and details had been provided on any corrective action to be taken. From our review, the following points were noted:</p> <ul style="list-style-type: none"> ➤ In one case, we found that a breakdown of the annual budgets and forecasted expenditure had been provided for both partners, together with the revised forecasted out-turns, and a comparison was made to the figures reported in the previous financial update. The report outlined that the improvement in the forecast position was due to further Covid-19 funding being provided by the Scottish Government, which had been included in the projections. ➤ In one case, new projected variances had been provided for the core, hosted and set aside services in the NHS Lothian budget, however comparisons between the annual budgets and the revised forecasts had not been detailed. In addition, a projected overspend of £600k had been reported for East Lothian Council without any supporting analysis of the figures and the forecast overspend did not agree to the figures reported in East Lothian Council's financial statement (period 6 in 2021/22) and we were informed that manual adjustments had been made to the figure based on projections for additional funding. ➤ In one case, we found that detailed analysis had been provided for NHS Lothian comparing the annual budgets for the core, hosted and set aside services with the YTD (Year To Date) budgets and YTD actuals, and a revised forecast underspend of £208k had been projected. However a similar analysis had not been provided for East Lothian Council and the financial update stated that an overspend in the delegated social care services budget was forecast, however details had not been provided of the actual amount of the overspend. The report further stated that after taking into account the additional winter funding, the position should be an underspend. 	Medium	<p>3.1 Consideration should be given to reviewing the approach currently adopted for reporting projected out-turns in the financial updates to ensure that a breakdown is provided of the annual budgets and revised forecast expenditure.</p> <p>3.2 Management should ensure that a clear audit trail exists for the projected out-turn for each partner – appropriate evidence should be maintained on file to support the figures reported.</p>
Management Response		Responsible Officer & Target Date	
<p>3.1 Agreed – reporting has not always been consistent due to a change in the Chief Finance Officer position and the impact of the Coronavirus pandemic. The standard method of reporting prior to the changes will be resumed.</p>		<p>3.1 Chief Finance Officer September 2022</p>	

4 Detailed Recommendations

Financial Updates

Objective 3	Findings & Risk 1 (cont)	Grade	Recommendations
Management Response		Responsible Officer & Target Date	
3.2 Agreed – during 2021/22 financial information was fast moving both locally and nationally and the reports were looking to provide the most up to date financial information to the East Lothian Integration Joint Board. We concur that this doesn't always support a clear audit trail and we will look to present this more clearly in the future.		3.2 Chief Finance Officer September 2022	

4 Detailed Recommendations

Variances

Objective 4	Findings & Risk 1	Grade	Recommendation
	The East Lothian Integration Joint Board’s financial plan incorporates the financial plans of both East Lothian Council and NHS Lothian. From our review of the financial monitoring for 2021/22, we note that an underspend was projected for both partners – NHS Lothian and East Lothian Council, however there was a lack of a clear directive for allocating surplus funds to specific strategic objectives. We were advised that a proposed new Direction seeks to promote the delivery of the strategic priorities with specific funding sources, these earmarked funding streams should be planned and utilised accordingly. This would be managed by the Chief Officer and reported back to the East Lothian Integration Joint Board.	Medium	4.1 Management should ensure that there is a clear directive for allocating surplus funds to specific strategic objectives.

Management Response

4.1 Agreed – this will be covered by a new Direction that seeks to promote the delivery of the strategic priorities with specific funding sources.

Responsible Officer & Target Date

**4.1 Chief Finance Officer
December 2022**

A Recommendation Grading/Overall Opinion Definitions

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	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.