



REPORT TO: EL IJB Audit & Risk Committee

MEETING DATE: 23 September 2025

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 the ELIJB Financial Planning.

2 RECOMMENDATIONS

- 2.1 The Audit & Risk Committee is asked to note the contents of the audit report.

3 BACKGROUND

- 3.1 An assurance review of Financial Planning has been undertaken as part of the Audit Plan for 2025/26.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the arrangements in place for Financial Planning 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.

Appendix 1: Internal Audit Report – ELIJB Financial Planning

AUTHOR'S NAME	Duncan Stainbank
DESIGNATION	Chief Internal Auditor
CONTACT INFO	dstainbank@eastlothian.gov.uk
DATE	16 September 2025



East Lothian
Integration Joint Board



East Lothian Integration Joint Board

Financial Planning

September 2025

Conclusion

Reasonable Assurance

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1 Executive Summary: Financial Planning

Conclusion: Reasonable Assurance

The East Lothian Integration Joint Board has internal controls and governance in place for Financial Planning, however improvements are required to provide a fully effective control process, including formally approving a multi-year financial plan based on the budget offers of partner bodies, undertaking an exercise to review financial resilience and sustainability and changing the approach adopted for projecting both social care and health deficits in the latter years of the financial plan.

Background

The East Lothian Integration Joint Board (ELIJB) produced its latest strategic plan for the period from 2022 to 2025, and the Board agreed at its meeting in February 2025 to undertake a review of the current plan with the aim of developing a new strategic plan later this financial year (an initial set of high-level strategic objectives and delivery priorities have been developed for inclusion in the revised strategic plan). The East Lothian Integration Joint Board is also required to prepare a multi-year financial plan which lays out how the Board will resource the delivery of its strategic plan (what resources will be used to deliver the functions that have been delegated to the East Lothian Integration Joint Board). Financial Planning is vital for demonstrating financial sustainability within the East Lothian Integration Joint Board moving forward, considering the significant financial challenges faced by the partner bodies. The most recent cumulative financial projections for the period from 2025/26 to 2029/30 forecast an overspend of approximately £30.3 million in financial year 2029/30. The Board utilised its remaining general reserves in 2024/25 and there is no general reserves in place to support the future financial position.

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 have not formally approved a multi-year financial plan laying out how it will resource the delivery of its strategic plan. *Management have agreed to present the new five-year financial plan for approval by March 2026.*
- The financial projections for the period from 2025/26 to 2029/30 presented to the East Lothian Integration Joint Board in March 2025 forecast large overspends in the latter years, and an exercise has not been undertaken to demonstrate financial resilience, and sustainability in relation to the CIPFA FM Code. *Management advised that the East Lothian Integration Joint Board are carrying out a review to address elements of the financial gap and to demonstrate that service plans are more sustainable in future years by March 2026.*
- There was a lack of appropriate methodology in place for projecting both social care and health deficits in the latter years of the financial plan – the social care and health deficits from the previous year in the financial projections were also included as a budgeted increase in costs for the next financial year, resulting in large forecast overspends. *Management advised that the current review should identify efficiencies by March 2026.*
- The existing arrangements in place for explaining the assumptions made when forecasting financial deficits require review. *Management have agreed to provide more details on the assumptions made when forecasting financial deficits by March 2026.*

Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	-	4
Prior Report	-	2	1	3

Materiality

The East Lothian Integration Joint Board (ELIJB) had a budget of £210 million in 2025/26, the ELIJB receives approximately 60% of its funding from NHS Lothian and 40% from East Lothian Council. The financial projections presented in March 2025 forecast an overspend of approximately £30.3 million in financial year 2029/30.

2 Headlines

Objectives	Conclusion	Comments
1. The East Lothian Integration Joint Board has an appropriate medium term financial plan in place.	Reasonable	The East Lothian Integration Joint Board have prepared a multi-year financial plan for the period from 2025/26 to 2029/30, however the plan has not been formally approved. The financial projections presented to the East Lothian Integration Joint Board in March 2025 forecast large overspends in the latter years, and an exercise has not been undertaken to demonstrate financial resilience and sustainability in relation to the CIPFA FM Code.
2. A clear audit trail exists to ensure that the reported information in the financial plan is accurate and complete.	Limited	We sought to establish if there was a clear audit trail for the East Lothian Integration Joint Board's financial projections for the period from 2025/26 to 2029/30 to ensure that the reported information was accurate and complete, and we found that the funding uplifts and expenditure growth for the partner bodies were correctly included within the combined plan. However, the existing arrangements in place for explaining the assumptions made when forecasting financial deficits require review. There was a lack of appropriate methodology in place for projecting both social care and health deficits in the latter years of the financial plan – the social care and health deficits from the previous year in the financial projections were also included as a budgeted increase in costs for the next financial year, resulting in large forecast overspends e.g. approximately £30.3 million in financial year 2029/30.
3. The assumed movements for financial savings and pressures in the financial plan are comparable with the levels indicated by the Scottish Government's Medium-Term Health and Social Care Financial Framework.	Reasonable	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% has been used for social care, together with a growth rate of 3.5% for health. For NHS Lothian services the financial plan was prepared based on information provided by NHS Lothian finance – pay awards were modelled in full and the plan assumed a 3% increase for AFC staff, medicines growth was based on detailed horizon scanning completed in conjunction with pharmacy colleagues etc. (a 10% growth rate had been applied primarily for drugs within the expenditure for Growth and Other Commitments). The financial plan prepared for East Lothian Council included modelling adjustments for growth and inflation and indexation in social care costs.
4. Adequate arrangements are in place for the effective monitoring of the financial plan.	Substantial	Adequate arrangements are in place for monitoring the financial plan throughout the financial year, the Chief Finance Officer holds regular meetings with East Lothian Council and NHS Lothian to discuss any changes in finances and to reflect the revised in year forecast financial outturns.
5. The East Lothian Integration Joint Board's financial plan is updated with the ongoing financial planning of the partner bodies.	Reasonable	Appropriate arrangements are in place to ensure that the East Lothian Integration Joint Board's financial plan is correlated with the planning of both partners – the financial plan incorporates the ongoing financial planning carried out by East Lothian Council and NHS Lothian, and the Chief Finance Officer presents regular financial updates to the East Lothian Integration Joint Board reporting on the latest financial position.

3 Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	A clear audit trail exists to ensure that funding uplifts and expenditure growth for the partner bodies are correctly included within the East Lothian Integration Joint Board's financial plan.
2.	Adequate arrangements are in place for monitoring the financial plan throughout the financial year, the Chief Finance Officer holds regular meetings with East Lothian Council and NHS Lothian to discuss any changes in finances and to reflect the revised in year forecast financial outturns.
3.	Appropriate arrangements are in place to ensure that the East Lothian Integration Joint Board's financial plan is correlated with the planning of both partners – the financial plan incorporates the ongoing financial planning carried out by East Lothian Council and NHS Lothian, and the Chief Finance Officer presents regular financial updates to the East Lothian Integration Joint Board reporting on the latest financial position.

4 Detailed Recommendations

Financial Plan

Objective 1	Findings & Risk 1	Grade	Recommendations
	<p>The East Lothian Integration Joint Board produced its latest strategic plan for the period from 2022 to 2025 and the Board agreed at its meeting in February 2025 to undertake a review of the current plan with the aim of developing a new strategic plan later this financial year (an initial set of high-level strategic objectives and delivery priorities have been drafted for inclusion in the revised strategic plan).</p> <p>The East Lothian Integration Joint Board is also required to prepare a multi-year financial plan which lays out how it will resource the delivery of its strategic plan. The following points were noted:</p> <ul style="list-style-type: none"> • The East Lothian Integration Joint Board were presented with a financial plan for the period from 2024/25 to 2028/29 on the 14 December 2023, however the East Lothian Integration Joint Board did not formally approve the new five-year financial plan. • A revised financial plan for the period 2024/25 to 2028/29 was presented to the East Lothian Integration Joint Board in April 2024 reflecting on further financial planning information provided by the partner bodies, including the financial recovery actions agreed as part of the 2024/25 budget setting process. • In March 2025, the East Lothian Integration Joint Board were presented with the cumulative financial projections for the period from 2025/26 to 2029/30 based on the most recent iterations of partner financial plans. However, the financial plan was not formally approved and these financial projections forecast large overspends in the latter years (e.g. an overspend of approximately £30.3 million is forecast in financial year 2029/30) and an exercise has not been undertaken to demonstrate service plans are financially resilient and sustainable moving forward. The East Lothian Integration Joint Board have adopted the CIPFA FM Code, and principle I states that: ‘the authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.’ <p>The risks of not formally approving the financial plan include failing to meet statutory obligations leading to legal actions for the ELIJB, a significant negative impact on health and social care users due to cuts in services to close the budget gap, reputational damage and increased regulatory scrutiny.</p> <p>The risks of not being financially sustainable include service disruption, a funding gap leading to potential overspends, workforce instability due to recruitment and retention issues, an inability to transform services to meet rising demand and an overall failure to deliver on the strategic objectives.</p>	Medium	<p>1.1 Management should ensure that the revised five-year financial plan is formally presented to the East Lothian Integration Joint Board for approval.</p> <p>1.2 Management should undertake an exercise to review the financial resilience and sustainability of service plans in compliance with the CIPFA FM Code.</p>

4 Detailed Recommendations

Financial Plan			
Objective 1	Findings & Risk 1 (cont)	Grade	Recommendations
Management Response		Responsible Officer & Target Date	
1.1 Agreed – a new five-year financial plan will be prepared and presented to the East Lothian Integration Joint Board for approval.		1.1 Chief Finance Officer March 2026	
1.2 Agreed – we are currently undertaking an exercise to address elements of the financial gap in conjunction with preparing a new financial plan.		1.2 Chief Finance Officer March 2026	

4 Detailed Recommendations

Audit Trail

Objective 2	Findings & Risk 1	Grade	Recommendations
	<p>We sought to establish if there was a clear audit trail for the East Lothian Integration Joint Board's financial projections for the period from 2025/26 to 2029/30 to ensure that the reported information was accurate and complete. The following points were noted:</p> <ul style="list-style-type: none"> In March 2025, the East Lothian Integration Joint Board were presented with the cumulative financial projections for the period from 2025/26 to 2029/30 based on the information provided by the partner bodies. We found that the funding/income uplifts and expenditure growth for the partner bodies were correctly included in the combined plan, however, the plan assumes East Lothian Council will not fund inflationary and pay increases and the existing arrangements in place for explaining the assumptions made when forecasting financial deficits require review. There was a lack of appropriate methodology in place for projecting both social care and health deficits in the latter years of the combined financial plan – the social care and health deficits from the previous year in the financial projections were also included as a budgeted increase in costs for the next financial year, resulting in large forecast overspends. <p>There is a risk that overstating deficits may hinder services provision planning and the ELIJB relies on costly one-off solutions e.g. stopping services rather than utilising sustainable recurring savings.</p> <p>There is a risk that the assumptions used in the later years of the financial plan do not provide full clarity and overstates the savings targets required.</p>	Medium	<p>2.1 Management should ensure that all assumptions made for forecasting financial deficits are properly explained to the Board, including if the partner bodies are expected to fund pay and inflationary increases.</p> <p>2.2 Management should ensure that an appropriate approach is adopted for projecting social care and health deficits in the latter years of the financial plan.</p>

Management Response

2.1 Agreed – we will provide more details on the assumptions made when forecasting financial deficits in the new financial plan.

2.2 Agreed – the exercise currently being undertaken should identify efficiencies to help reduce the projected deficits included as an increase in costs for the later years in the financial plan.

Responsible Officer & Target Date

**2.1 Chief Finance Officer
March 2026**

**2.2 Chief Finance Officer
March 2026**

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.

