

Date	24 February 2021
Agenda Item	8



Report to Audit Risk and Governance Committee

Report Title: Internal Audit of Financial Planning

Report By: IJB Internal Auditor

Summary of Report and Implications	
Purpose	This report: (tick any that apply).
	- seeks a decision <input type="checkbox"/>
	- is to provide assurance <input checked="" type="checkbox"/>
	- is for information <input type="checkbox"/>
	- is for discussion <input checked="" type="checkbox"/>
	To inform the Committee of the outcome of an internal audit of the IJB's financial planning arrangements.
Recommendations	It is recommended that the Committee notes that control is considered to be effective.
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	None.
Risk	Directly relevant to risk IJB004 "Inadequate Funding to Deliver the Strategic Plan".

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	Indirectly linked to the IJB's other plans via the audit of processes which may impact on their effectiveness.
Locality Planning	None.
Engagement	IJB Chief Finance Officer as part of the audit process.

Terms of Report	
1.	Background
1.1	In accordance with the internal audit plan for 2020/21, we have undertaken an audit of the IJB's financial planning arrangements, and concluded that control is effective. The resultant audit report is appended. There are no audit findings, and therefore no action plan.

Appendices	1. Internal audit report dated 1 February 2021: IJB Financial Planning
References	None
Contact	Kenneth Ribbons, IJB Internal Auditor Kenneth.ribbons@westlothian.gov.uk 01506 281573

EX2004

INTERNAL AUDIT REPORT

IJB FINANCIAL PLANNING

1 February 2021



West Lothian
Council



CONTENTS

No.	Section	Page
1.	Executive Summary	1 - 2
2.	Remit	3
	<u>Appendix A</u> – Definitions of Audit Findings & Audit Opinion	4

1.0 EXECUTIVE SUMMARY

- 1.1 In accordance with the Integration Joint Board (IJB) annual audit plan for 2020/21, we have undertaken a review of the IJB's financial planning arrangements and conclude that control is effective.
- 1.2 *Risk IJB004: Inadequate funding to deliver the Strategic Plan* is currently recorded in the IJB risk register as a 'high' risk with a probability score of 4 (very likely) and an impact score of 4 (major).
- 1.3 The audit remit is set out in section two.
- 1.4 The West Lothian IJB was formally constituted on 21 September 2015 upon the approval of the Integration Scheme by the Scottish Government. West Lothian IJB has achieved a balanced budget in each year since its constitution.
- 1.5 The key findings from the audit review are as follows:
- the internal controls recorded in Pentana to mitigate risk IJB004 were reviewed and it was confirmed that these are in place as stated. These include having processes in place for financial governance, due diligence, resource allocation, identification and review of financial risks and financial reporting. There is scope for the internal controls to be reviewed and to be updated to reflect some of the joint working arrangements in place.
 - three risk actions are linked to risk IJB004, which are all recorded as being in progress. These are regularly reviewed and updated.
 - budget update reports providing forecasts on the financial position of the West Lothian Council and NHS Lothian activities delegated to the IJB are presented regularly to the Board. These include an overview of key budget issues and pressures, a financial risk schedule, progress updates on the delivery of savings and updates on future year budgets. Since June 2020 the budget update reports have included information on the impact of Covid-19 on the IJB budgets.
 - there are good arrangements in place for sharing information and joint working with the partner organisations with Chief Officer meetings, Senior Officer catch up meetings, and NHS Senior Finance Team meetings which are attended by the IJB Chief Finance Officer. The IJB Chief Finance Officer has confirmed there are good working relationships and communications in place between officers from the partner organisations, and that the IJB's response to the Covid-19 pandemic has also demonstrated how officers can effectively work together to ensure the continuity of services.
 - an IJB Transformation Board was formed in July 2020, with the remit to take forward the IJB's Transformation Programme which includes the identification and delivery of savings programmes across the IJB. Progress of the activities Board has to some extent been delayed due to Covid-19, but its role will be key going forward, and will be closely linked to IJB financial planning.
- 1.6 A medium-term financial plan covering the period 2019/20 to 2022/23 was presented to the Board on 23 April 2019, with the intention of providing an update on medium term financial planning during 2020, after the announcement of multi-year budget statements by the Scottish Government. However due to external factors such as uncertainties around Brexit and the Covid-19 pandemic multi-year budget statements have not been announced by the Scottish Government, and the medium-term financial planning

update did not progress as planned. An update on the IJB budget from 2020/21 to 2022/23, based on existing partner planning assumptions, was provided to the Board on 30 June 2020.

- 1.7 The IJB Chief Finance Officer has advised that further updates will be provided to the Board over the coming months on the 2021/22 and 2022/23 budgets, and going forward there will be a focus on developing a medium-term financial planning framework which is intended to be aligned to the next strategic plan and commissioning plans, and will cover the period from 2023/24 to 2027/28. In developing the framework the objective will be for the IJB to move towards a more integrated approach to financial planning across health and social care.
- 1.8 During the course of the audit a review was undertaken of the Accounts Commission Report on Fife IJB where serious financial concerns were raised around the operation of the IJB. Having reviewed the issues detailed in the report in our opinion there are no similar significant issues apparent within the operation of the West Lothian IJB.
- 1.9 The joint inspection report on the Effectiveness of strategic planning in West Lothian Health and Social Care Partnership by Health Improvement Scotland and the Care Inspectorate, was issued in September 2020. It noted that:
 - *'.... Whilst there was clear communication between officers of the integration joint board and the partner agencies in relation to finance, reporting on finance was separate, making it more challenging to plan... More positively, there was a sense of common understanding between the most senior officers on the board, in NHS Lothian and West Lothian Council about the financial situation, and how any overspend or shortfall would be addressed so the board could balance its budget*
 - *the board was provided with good information about financial affairs. It had acceptable processes in place to guarantee effective financial governance and this was confirmed by the 2018/19 external audit report'.*
- 1.10 Two findings were raised in the Joint inspection Report in relation to financial planning and reporting i.e. *'Develop a framework for integrated financial planning that will better support transformation and commissioning plans'* and *'To ensure the next iteration of the Strategic Plan is fully aligned to a medium-term financial strategy agreed across the partnership'*.
- 1.11 No audit findings were identified from our audit work.
- 1.12 Appendix A includes information on the definition of audit findings and the audit opinion.
- 1.13 We appreciate the assistance of Patrick Welsh during the conduct of our audit. Should you require any further assistance please contact Sharon Leitch.

Kenneth Ribbons
IJB Internal Auditor

2.0 REMIT

- 2.1 The objective of the audit was to review the internal controls and risk actions in place to mitigate risk IJB004: Inadequate funding to deliver the Strategic Plan. This included a review of medium-term financial planning for the IJB.
- 2.2 No internal audit report can provide absolute assurance as to the effectiveness of the system of internal control. Our review concentrated on the key controls and our testing was undertaken on a sample basis. Therefore, the weaknesses we have identified are not necessarily all those which exist.
- 2.3 We agreed the draft report for factual accuracy with Patrick Welsh, West Lothian IJB Chief Finance Officer on 29 January 2021.
- 2.4 The Chief Officer of West Lothian Health and Social Care Partnership is responsible for both the implementation of agreed actions and the risk arising from not acting on any agreed actions in this report.
- 2.5 We carry out follow-up reviews on a risk based approach. The IJB Auditor will determine the need for a follow-up review of this report.
- 2.6 In accordance with the IJB's risk management arrangements internal audit findings graded as being of 'high' or 'medium' importance are recorded in Pentana as risk actions and linked to the corresponding risks.
- 2.7 Audit findings ranked as being of 'high' or 'medium' importance that are not implemented will be reported to the Audit Risk and Governance Committee and considered for inclusion in the Annual Governance Statement.

DEFINITIONS OF AUDIT FINDINGS & AUDIT OPINION

AUDIT IMPORTANCE LEVELS

Importance levels of '**High**', '**Medium**' or '**Low**' are allocated to each audit finding within the action plan.

These reflect the importance of audit findings to an effective system of internal control and must be considered in the context of the business processes being audited (Section 2 – Audit Remit).

AUDIT OPINION

Our overall opinion on the controls in place is based on the level of importance attached to the findings in our audit report. The overall audit opinions are as follows:

Overall Opinion	Definition
EFFECTIVE	No findings ranked as 'High' importance. There may be a few 'Low' and 'Medium' ranked findings.
SATISFACTORY	No findings ranked as 'High' importance however there are a moderate number of 'Low' and 'Medium' ranked findings.
REQUIRES IMPROVEMENT	A few findings ranked as 'High' importance. There may also be a number of findings ranked as 'Low' and 'Medium' importance.
UNSOUND	A considerable number of findings ranked as 'High' importance resulting in an unsound system of control. There may also be a number of findings ranked as 'Low' and 'Medium' importance.