

EX2101

INTERNAL AUDIT REPORT

IJB BUDGET MONITORING

26 November 2021



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1.0 EXECUTIVE SUMMARY

1.1 In accordance with the Integration Joint Board (IJB) annual audit plan for 2021/22, we have undertaken a review of the IJB's budget monitoring arrangements and conclude that control is **satisfactory**.

1.2 The audit remit is set out in section two.

1.3 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. The IJB instructs West Lothian Council and NHS Lothian on the delivery of the integrated budget through the issue of Directions.

1.4 For the financial year 2020/21 the West Lothian IJB incurred the undernoted levels of income and expenditure, with in-year underspends recorded for both health and social care functions.

	Income £'000	Expenditure £'000	(Underspend) / Overspend £'000
Health functions	226,724	224,420	(2,304)
Social Care functions	69,353	62,412	(6,941)
Total	296,077	286,832	(9,245)

1.5 The external auditors provided an unqualified opinion on the annual accounts, noted that the Annual Governance Statement reflected the requirements of the Delivering Good Governance Framework, and concluded the core financial management arrangements were adequate for the current management of financial activities.

1.6 West Lothian IJB's expenditure represents approximately 11% of NHS Lothian and 13% of West Lothian Council expenditure.

1.7 West Lothian Council and NHS Lothian take different approaches to setting their budgets:

West Lothian Council - operates a zero-based budgeting approach where the total funding available is used to set budgets based on the needs of the council, and budget savings are built into annual budgets. This ensures the requirement to set a balanced budget is met.

NHS Lothian - operates on an incremental based budgeting basis, where the previous year's budget is the starting point and increases are applied as detailed in the NHS Lothian Financial Plan, which are based on uplifts provided annually by the Scottish Government.

1.8 In both organisations there are regular budget monitoring activities are in place that result in the outturn position being discussed initially with budget holders, and then reported to senior managers and appropriate Committees and Boards.

1.9 The following key controls were identified over the budget monitoring arrangements for both West Lothian Council and NHS Lothian:

- clear finance ledger structures are in place;
- budgets are allocated to designated budget holders;
- high level governance arrangements are in place covering the financial administration of each organisation i.e. Financial Regulations for West Lothian Council and Standing Financial Instructions for NHS Lothian;

- processes are in place to ensure that IJB budgets, income and expenditure are separately identifiable;
 - there is regular budget monitoring reporting to Committees and Boards;
 - budget monitoring timetables are in place including key dates for budget monitoring review, feedback and reporting;
 - there is regular reporting to senior managers;
 - issues, risks and budget pressures are considered as part of budget monitoring and are reported to management;
 - arrangements are in place for ongoing liaison with budget holders;
 - information provided by both organisations allows for regular reporting to the Integration Joint Board.
- 1.10 The existence of these controls provides the IJB with assurance over the processes in place within West Lothian Council and NHS Lothian which result in the provision of budget monitoring and other financial information to the IJB. Appendix A provides further detail on how these key controls are operated in each organisation.
- 1.11 None of our findings have been ranked as being of 'High' importance.
- 1.12 The action plan in section three details our findings, grades their importance (Appendix B) and includes agreed actions. The implementation of agreed actions will help improve control.
- 1.13 We appreciate the assistance of those members of staff contacted 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 controls in place over IJB budget monitoring, including a high-level review of the processes in place for budget monitoring in West Lothian Council and NHS Lothian, and to review the subsequent processes in place for the provision of information to the IJB by West Lothian Council and NHS Lothian.
- 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 12 November 2021.
 - Andrew McCreadie, Head of Management Accounting, NHS Lothian on 18 November 2021.
 - Hamish Hamilton, Finance Business Partner, NHS Lothian and Karen Stevenson, Senior Service Accountant, West Lothian Council on 12 November 2021.
- 2.4 We carry out follow-up reviews on a risk-based approach. The IJB Internal Auditor will determine the need for a follow-up review of this report.
- 2.5 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.
- 2.6 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.

3.0 ACTION PLAN

Ref	Findings & Risk	Agreed Action	Importance Level
3.1	<p><u>NHS Lothian Budget Monitoring Procedures</u></p> <p>The NHS Lothian Standing Financial Instructions is the main governance document in respect of budget monitoring arrangements in NHS Lothian. It includes the responsibilities of the Chief Executive, Director of Finance and all budget holders.</p> <p>During the course of the audit we requested copies of any budget monitoring procedures in place to support the Standing Financial Instructions and were provided with a copy of the document 'NHS Lothian Financial Operating Procedure – Budgetary Control. This is dated February 2010 with a review date of February 2013.</p> <p>NHS Lothian Internal Audit undertook an audit of Budget Management and Financial Recovery Plan Monitoring in June 2017 and finding 1.1 in this report was 'Financial Operating Procedures for Budgetary Control have passed their review date and require updating', referring to the same procedure noted above.</p> <p>The management action agreed by the Head of Management Accounting at that time was 'The Financial Operating Procedure will be reviewed and updated following the establishment of tableau dashboards for monthly reporting, following review at Q1. The target date was October 2017.</p> <p>The position in respect of the Financial Operating Procedure should be clarified and the procedure should be reviewed and updated.</p> <p><u>Risk</u> <i>Lack of detailed procedures resulting in incorrect or inconsistent practices being followed.</i></p>	We will undertake a review of the Standing Financial Instructions - NHS Lothian Financial Operating Procedure – Budgetary Control in this financial year, and provide updates to these as required.	Medium
			Responsible Officer
			Andrew McCreadie
			Risk Identifier
			IJB004
			Action Date 31/03/2022

Ref	Findings & Risk	Agreed Action	Importance Level
3.2	<p><u>West Lothian Council Financial Regulations</u></p> <p>The NHS Lothian Standing Financial Instruction make specific references to the Integration Joint Board and the financial accounting requirements in relation to the integrated functions.</p> <p>The West Lothian Council Scheme of Delegation has a number of references to the IJB and the delegated authority around the IJB Directions, however the Financial Regulations do not include any specific reference to the IJB. Section A.6 is a general section covering Partnerships and Joint Arrangements, and refers to the 'Code of Guidance in Funding External Bodies and Following the Public Pound'.</p> <p>This was discussed with the council's Governance Manager who advised that the Public Bodies (Joint Working) (Scotland) Act 2014 and the Integration Scheme do include duties in relation to finance and accounting which should be reflected in the West Lothian Council Financial Regulations.</p> <p>The West Lothian Council Financial Regulations should therefore be reviewed and updated as necessary.</p> <p><u>Risk</u> <i>Financial governance arrangements may not fully cover the relationship between the council and the West Lothian Integration Joint Board.</i></p>	The council's Financial regulations will be reviewed to consider any updates required to reflect financial accounting and governance requirements in respect of the IJB.	<p>Medium</p> <p>Responsible Officer</p> <p>Patrick Welsh / James Millar</p> <p>Risk Identifier</p> <p>IJB004</p> <p>Action Date</p> <p>31/03/2022</p>

KEY CONTROLS

Control Area	West Lothian Council	NHS Lothian
Ledger Structure	<p>Financial ledger system in place which records all Social Policy budgets. Business Objects reports available to budget holders.</p> <p>Dedicated cost centres are in place for those functions that are delegated to the IJB.</p>	<p>Financial ledger system in place to record all budgets. Separate system, Tableau, used by budget holders to access budget information. Tableau finance overview dashboard provides a range of graphs and summary information which can be drilled down further.</p> <p>A mapping spreadsheet is in place which is used as the basis for splitting those NHS Lothian budgets which are held and managed across the whole organisation e.g. Acute Services at St John's, as opposed to at an HSCP level. This enables reporting for each IJB.</p>
Budget Holders	Social Policy budget holders are allocated to their corresponding budgets within the council's finance ledger.	Spreadsheet available showing the budget holders for each of the areas covered by the West Lothian Health and Social Care Partnership.
Governance and Other Procedures	West Lothian Council Financial Regulations supported by Revenue Budgetary Control Procedure, Revenue Budgetary Control Framework, and Revenue Budget Monitoring Key Steps document.	NHS Lothian Standing Financial Instructions in place outlining the responsibilities of the Chief Executive, Director of Finance and budget holders, and Financial Operating Procedure for Budgetary Control.
Reporting to Boards and Committees	<p>Regular budget monitoring reports are presented to Council Executive and the Social Policy and Health and Social Care Policy Development and Scrutiny Panels.</p> <p>Integration Joint Board budget monitoring and finance updates.</p>	<p>Regular budget monitoring reports are presented to the NHS Lothian Finance and Resources Committee and Board.</p> <p>Integration Joint Board budget monitoring and finance updates.</p>

Control Area	West Lothian Council	NHS Lothian
Reporting Timetable	<p>A revenue forecasting timetable is prepared at the start of each financial year which covers that full financial year. The key steps in each reporting period includes:</p> <ul style="list-style-type: none"> • Monthly budgetary control reports available • Recurring pressures monitoring • Budget holders review report, collate forecasts and meet with Financial Management Unit (FMU) • FMU verify forecasts with budget holders and Corporate Management Team reports completed • Risk Schedules updated • Forecasts updated to ledger • Reporting to Corporate Management Team • Reporting to Council Executive. 	<p>A monitoring timetable is prepared in advance of each financial reporting quarter. The key steps in each reporting period includes:</p> <ul style="list-style-type: none"> • Completion of all processing • Communication of close of general ledger • Consolidation of forecast by corporate team • Discussion of period forecast – services and business partners • Forecast paper for Finance and Resources to be produced, reviewed and signed off • General Ledger and Collaborative Planning roll forward • Finance and Resources Committee reporting.
Monitoring and Reporting Arrangements	<p>HSCP Management Team – joint report covering West Lothian Council and NHS Lothian delegated functions.</p> <p>WLC Corporate Management Team reporting – months 3, 4, 6 and 9.</p> <p>Social Policy Finance Review meeting – monthly.</p> <p>Monitoring with budget holders – monthly/quarterly.</p>	<p>HSCP Management Team – joint report covering West Lothian Council and NHS Lothian delegated functions.</p> <p>NHS Lothian Executive Leadership Team - monthly</p> <p>HSCP Director meeting – monthly.</p> <p>NHS Lothian DCE Performance Review – quarterly</p> <p>Monitoring with budget holders – monthly/quarterly.</p>
Risks and Issues	<p>Risk schedules are prepared covering material budget risk areas e.g. significant budget pressures and these are reviewed with management monthly and are included in reports to the Corporate Management Team and Committees. These risks are monitored monthly.</p> <p>Integration Joint Board reports include a risk update appendix detailing the risk and its description and impact covering all appropriate areas of WLC and NHS Lothian.</p>	<p>Budget issues, risks or concerns are considered as part of the overall budget monitoring process and are highlighted in the reports to the Executive Leadership Team, HSCP and DCE quarterly review.</p> <p>Integration Joint Board reports include a risk update appendix detailing the risk and its description and impact covering all appropriate areas of WLC and NHS Lothian.</p>

DEFINITION 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.
UN SOUND	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.