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Agenda Item: 7.

Integration Joint Board – Audit Committee

Date of Meeting: 26 September 2018.

Subject: Internal Audit Report – Financial Planning 2018/19.

1. Summary

1.1. An internal audit has been completed on the financial planning arrangements in place.

2. Purpose

2.1. To present the internal audit report relating to financial planning.

3. Recommendations

The Audit Committee is invited to note:

3.1. That an internal audit has been undertaken of the financial planning arrangements in place.

3.2. The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to financial planning.

3.3. That an action plan to address the improvements identified and included within the internal audit report has been agreed with responsible officers, with the actions due to be implemented by March 2019.

4. Background

4.1. Financial planning is an important part of the strategic planning process for ensuring that the Integration Joint Board can afford the services it wishes to commission.

4.2. The Orkney Integration Scheme requires that the Board's Three-Year Strategic Plan shall incorporate a medium term financial plan for its resources, and that on an annual basis a financial statement will be prepared setting out the amount the Board intends to spend to implement its Strategic Plan.

5. Audit Findings

5.1. The audit has confirmed that, although management recognises the need to put in place longer-term financial planning arrangements, further work is required to ensure that these plans are developed.

5.2. The audit report includes three high priority issues:

- Financial plans do not currently extend beyond one year.
- There is no approved budget in place for 2018/19.
- There are substantial savings noted as required in the recovery plan that remain to be identified.

5.3. An action plan has been agreed to address the findings of the audit, with the recommendations due to be implemented by March 2019.

6. Contribution to quality

Please indicate which of the Council Plan 2018 to 2023 and 2020 vision/quality ambitions are supported in this report adding Yes or No to the relevant area(s):

Promoting survival: To support our communities.	No.
Promoting sustainability: To make sure economic, environmental and social factors are balanced.	No.
Promoting equality: To encourage services to provide equal opportunities for everyone.	No.
Working together: To overcome issues more effectively through partnership working.	No.
Working with communities: To involve community councils, community groups, voluntary groups and individuals in the process.	No.
Working to provide better services: To improve the planning and delivery of services.	Yes.
Safe: Avoiding injuries to patients from healthcare that is intended to help them.	No.
Effective: Providing services based on scientific knowledge.	No.
Efficient: Avoiding waste, including waste of equipment, supplies, ideas, and energy.	Yes.

7. Resource implications and identified source of funding

7.1. There are no resource implications associated directly with the recommendations to this report.

8. Risk and Equality assessment

8.1. There are no risks associated with this report.

9. Direction Required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

10. Author

10.1. Olwen Sinclair, Chief Internal Auditor.

11. Contact details

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12. Supporting documents

12.1. Appendix 1: Financial Planning 2018/19.



ORKNEY
ISLANDS COUNCIL

INTERNAL AUDIT

Orkney Integration Joint Board – Financial Planning

Audit Report

2018/19

Draft Report Issue Date: 06 September 2018 **Distribution :** Chief Officer Orkney Health and Care
Final Report Issue Date: 18 September 2018 Chief Finance Officer
Orkney Integration Joint Board

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EXECUTIVE SUMMARY

Financial planning is an important part of the strategic planning process and is required to ensure that the Orkney Integration Joint Board (OIJB) can afford the services it wishes to commission. It can be particularly difficult in a period when future budget allocations are unknown. Where no medium-term financial plan exists, it is the current budget that represents a one-year financial plan.

Our audit found that although management recognise the need to put in place longer-term financial planning arrangements, further work is required to ensure these plans are developed.

Areas of good practice were identified including: -

- Budgets are monitored as part of a robust budget management and monitoring process.
- Board members receive regular updates on financial performance.
- The financial effects of new legislative changes, such as the Carers (Scotland) Act 2016 are incorporated in the 2018/19 budget.

However, our audit also found that: -

- Financial plans do not currently extend beyond one year.
- There is no approved budget in place for 2018/19.
- There are substantial savings in the recovery plan that remain to be identified.

The report includes recommendations which have arisen from the audit. These are set out in the table below under each of the priority headings which assist management in assessing the significance of the issues raised.

Total	High	Medium
4	3	1

- Responsible officers will be required to update progress on these agreed actions via Aspireview.
- The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

BACKGROUND

The Orkney Integration Scheme details in relation to Finance at section 2.10.5.1 that “The Board’s 3 Year Strategic Plan shall incorporate a medium term financial plan for its resources.” The medium term financial strategy shall be prepared for the Board following discussions with Orkney Islands Council (OIC) and NHS Orkney (NHSO).

The Strategic Commissioning Plan for 2016- 2019 incorporated a 3-year financial plan for the resources within the scope of the plan. The IJB’s practice has been to refresh the Strategic Commissioning Plan annually. The most recent refresh approved in March 2018 by the Board includes an indicative budget for 2018/19. Resources are delegated from the OIC and NHSO.

AUDIT OBJECTIVES

The purpose of the audit is to gain assurance that there are adequate arrangements in place for financial planning of the Orkney Integration Joint Board.

Audit work included, but was not limited to: -

- a) Reviewing the process followed for the preparation and approval of a financial plan.
- b) Reviewing the content of the financial plan for 2018/19, considering: -
 1. Whether the financial plan is linked to the Strategic Plan, taking account of any refreshments which have been made to the Strategic Plan. Confirming whether the financial plan supports the strategic priorities.
 2. Examining how the budget setting of the funders, OIC and NHSO is linked to the OIJB budget setting and financial planning for delegated and set-aside functions. Considering the timing and how “integrated” the process is.
 3. That provisions and assumptions are realistic, transparent and consistent.
 4. That “one-off” monies due to be received are clearly identified for the financial year only.
 5. The identification of budget pressures. These include, amongst others, identification and recognition of any new legislative requirement, quantification of demand growth and inflationary factors.
 6. Matching of expenditure to income, or identification of any funding shortfall along with plans to meet the shortfall.
 7. The preparation and approval of a recovery plan for the current financial plan, including whether the recovery plan details specific savings which are adequate, (as per the recommendation made in the OIJB Integration Assurance Update internal audit report, issued June 2017).
 8. The identification and quantification of future savings required in offsetting budget overspend and shortfall. Scrutiny and management procedures in place over the delivery of such future savings.
- c) Reviewing the financial planning underway for the period 2019/20 onwards, as required for the next update of the Strategic Commissioning Plan.

- d) Reviewing whether financial planning is linked to the Risk Register.
- e) Considering the financial management and reporting and how this supports financial planning.

Limited audit work was spent on NHSO budgetary processes because, as part of their 2018/19 Internal Audit Plan for NHSO, their internal auditors Scott-Moncrieff are planning to carry out work on budget management including reviewing the processes for monitoring actual versus budget income and expenditure, and taking action as required to address adverse variances. This will include monitoring planned efficiency savings and year-end forecasting.

Audit Findings

1. Medium Term Financial Plan

- 1.1 The OIJB Integration Scheme states that 'The Board's 3 Year Strategic Plan shall incorporate a medium term financial plan for its resources. On an annual basis a financial statement will be prepared setting out the amount the Board intends to spend to implement its 3 Year Strategic Plan'. The current refresh for 2018-19 contains a Financial Plan covering that one-year period only, which means that there is no financial plan extending beyond March 2019. The above requirement is also set out in the OIJB Financial Regulations.
- 1.2 Audit Scotland, in their 2016/17 Annual Audit Report for the OIJB recommended that the OIJB should develop medium to long-term financial plans to assist in addressing upcoming and future budget challenges.' They have indicated that this will also be a recommendation in the 2017/18 Annual Report.
- 1.3 The lack of any medium-term financial plan appears to be common amongst other IJB's. An analysis was undertaken of a random sample of 2016/17 Audit Reports of 15 out of the 31 IJB's. From this sample only one appeared to have a medium to long-term strategy in place.
- 1.4 Further checks were made of the 14 IJB's identified above as not having a medium to long-term financial plan. Only four of these 14 were found to have developed or approved a plan since 31/03/2017.
- 1.5 Financial planning is an important part of the strategic planning process, and the longer the period covered, the more likely it is to enable the Board to assess the potential financial impact of current and future decisions, and to ensure the OIJB remains financially sustainable. It will also help to mitigate the risk of future funding gaps and any delays in agreeing funding allocations.
- 1.6 At their meeting of 14 March 2018, the Board 'agreed to work urgently to develop plans to deliver financial balance and deliver long term sustainable and affordable health services'. This can only be done with the development of a medium-term financial plan.
- 1.7 A medium-term financial plan should be developed as a matter of priority, to ensure that the Board's key priorities and strategic objectives are deliverable.

Recommendation 1

2. Budget setting and the 2018/19 Budget

- 2.1 An indicative budget was presented at the IJB Board meeting on 14 March 2018. This did not include any pay increases, inflationary uplifts, service investments, savings or amounts for set aside. The different budget setting timetables of NHSO and the OIC do not enable the preparation of a draft budget for the OIJB in time for the March meeting of the Board. Therefore, only an indicative budget as described is presented. This, combined with ongoing financial planning arrangements with the Scottish Government, and resulting expected and often unexpected allocations of funds or additional service requirements, means that even during the year in question, budgets often change.
- 2.2 However, the budget discussed at that meeting was not approved. Instead the Board noted the information provided and that further detail would be given through briefings.
- 2.3 The OIJB should, as a matter of priority, address the fact that there is not an approved budget in place for 2018/19.

Recommendation 2

3. The Recovery Plan

- 3.1 It is essential that the OIJB has adequate financial resources in place to deliver the outcomes of the Strategic Commissioning Plan. Indeed, the highest rated risk identified in the OIJB Risk Register is the risk that the recovery plan will not ensure that the Board will break even at the year end.
- 3.2 The Integration Scheme states that if it is forecast that an overspend shall arise, a recovery plan shall aim to bring the forecast expenditure of the Board back in line with the budget within the current financial year.
- 3.3 In 2017/18 a recovery plan was put in place but was not achieved. Instead, additional funding was received from partner bodies outside the recovery plan.
- 3.4 The 2017/18 OIJB Annual Accounts include a section concerning the financial outlook for 2018/19. This states that of the planned savings of £1.448m, the current recovery plan is indicating that £1.138m has yet to be identified. A Revenue and Expenditure Monitoring Report will be submitted to the October 2018 meeting of the OIJB regarding these figures. It is important that these savings are identified and realised, so that additional payments do not have to be made to the Board by partner bodies.
- 3.5 It is recognised within the draft Monitoring Report that the recovery plan only looks at the current issues and is not robust to make long term recurring savings. Also, that to ensure a balanced budget services will need to be streamlined or delivered in a different way.
- 3.6 In accordance with the Integration Scheme, the recovery plan should detail how forecast savings are going to be achieved within the financial year. This plan should be approved by the Board.

Recommendation 3

- 3.7 Where a recovery plan is unsuccessful and an overspend occurs at the financial year end, the Integration Scheme states at section 2.10.7.5 that “partners will be required to make additional payments to the Board. Any additional payments by Orkney Islands Council and NHS Orkney may then be deducted from future years funding/payments.”
- 3.8 Should the partner bodies choose to deduct any additional payments which they have made from future funding allocations, this would be highly likely to compound future funding deficits. This option within the Integration Scheme should be reviewed by the Board to consider the suitability of its inclusion within the scheme.

Recommendation 4

	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
	Medium Term Financial Plan			
1.	A medium-term financial plan should be developed as a matter of priority, to ensure that the Board's key priorities and strategic objectives are deliverable. High Priority	Chief Finance Officer	A 3-year medium term financial plan shall be developed to coincide with the new 3-year strategic plan which will cover financial year's 2019/2022.	March 2019
	Budget Setting and the 2018/19 Budget			
2.	The OIJB should, as a matter of priority, address the fact that there is not an approved budget in place for 2018/19. High Priority	Chief Officer/ Chief Finance Officer	Discussions will be held with the partner bodies on a way forward and a report will be submitted to the IJB.	October 2018
	The Recovery Plan			
3.	The recovery plan should detail how forecast savings are going to be achieved within the financial year. This plan should be approved by the Board. High Priority	Chief Officer / Chief Finance Officer	The recovery plan is incorporated within the revenue and expenditure monitoring reports which are updated and submitted to the IJB meetings on a quarterly basis and will request approval. The plan shall specify how the forecast savings will be achieved.	October 2018
4.	The option within the Integration Scheme for Partner Bodies to deduct any additional payments they have made to address an overspend, from future years funding should be reviewed by the Board to consider the suitability of its inclusion within the scheme. Medium Priority	Chief Officer/ Chief Finance Officer	Discussions will be held with the partner bodies in regard to the current arrangements in respect of overspends and how these shall be addressed and whether the option to reduce future years spend is an acceptable mechanism.	December 2018

Priority	Assessment
High	<ul style="list-style-type: none">• Key control absent or inadequate;• Serious breach of regulations;• Significantly impairs overall system of internal control;• No progress made on implementing control;• Requires urgent management attention.
Medium	<ul style="list-style-type: none">• Element of control is missing or only partial in nature;• Weakness does not impair overall reliability of the system;• Recommendation considered important in contributing towards improvement in internal controls;• Management action required within a reasonable timescale.

Note:

It should be recognised that where recommendations in the action plan are not implemented there may be an increased risk of a control failure. It should be noted however that it is the responsibility of management to determine the extent of the internal control system appropriate to their area of operation.