

Integration Joint Board



Co-bhòrd an Amalachaidh

Internal Audit Review

Financial Planning, Management and Savings

Final Report – 2019/20 – IJB

22 November 2019

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

CONTENTS

	Page
SECTION 1 - EXECUTIVE SUMMARY	1 - 4
SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS	5 - 8
SECTION 3 - ACTION PLAN	9
APPENDIX A - RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT	10
APPENDIX B - ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES	11

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Final Report Issued	22 November 2019

Issued to:	
Chief Officer	Ron Culley
Chief Financial Officer	Debbie Bozkurt
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**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 1: EXECUTIVE SUMMARY

Introduction

- 1.1 This report has been prepared following an internal audit review of the Integration Joint Board (IJB) financial planning, management and savings processes and as part of the operational annual internal audit plan for 2019/20. The purpose of this report is to provide an overview of the IJB's arrangements for financial planning, management and savings in terms of the objectives noted below.

Background information

- 1.2 The Western Isles IJB commissions a range of services and in 2018-19 had funding of almost £60m to spend on services. The current financial plan indicates that over the medium term it is estimated that the IJB will experience a funding shortfall of £5.4m by 2022. The plan also acknowledges that difficult decisions will need to be made in order to maintain the financial sustainability of the IJB and that transformation of services will need to play a significant part in the delivery of its strategic priorities.

Internal audit objective

- 1.3 In accordance with the remit outlined within the operational annual internal audit plan for 2019/20 and further documented within the agreed terms of reference, our internal audit work was designed to obtain assurance that the IJB's arrangements with regard to financial planning, management and savings were appropriate and operating as expected. In practice, we assessed whether the overall objective was being achieved by confirming that:-
- The Strategic Plan drives the financial strategy and provides the basis for the IJB to present proposals to the relevant parties to allow for any necessary redesign of services and transformational change, influence revenue and capital budgets and to enable the achievement of efficiency savings and the ability to make re-investment opportunities;
 - The long term financial plan identifies which services are to be prioritised, how services are going to be provided differently;
 - A comprehensive long term financial planning process is in place;
 - The long term financial planning process has been communicated effectively to the IJB Board members, partner organisations and the general public and the IJB has published what it intends to spend in implementing its Strategic Plan; and
 - The Chief Financial Officer prepares monthly financial reports in an agreed format and in accordance with agreed timescales.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 1: EXECUTIVE SUMMARY (CONTINUED)

1.4 Areas of Good Practice/Observations

- Detailed and comprehensive monthly financial reporting;
- Experienced and knowledgeable Chief Officer and Chief Financial Officer.

1.5 Concluding remarks

Our detailed findings are included in the body of this report. We would point out that the main issue arising from our review which requires management attention are:

- The Financial Plan be further developed over a 5 year period and linked together with the updated Strategic Plan and Workforce Strategy; (Para 2.1)
- A comprehensive assessment of high risk savings areas will need to be undertaken periodically with appropriate escalation to the Board where service delivery is likely to be adversely affected. (Para 2.2)

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 1: EXECUTIVE SUMMARY (CONTINUED)

- 1.6 We have graded our detailed findings and recommendations, based on the likelihood of the identified weakness occurring and the impact on the IJB if it should occur, using the following criteria:

Grade 1 - **“Critical”** – High likelihood, High impact (HH)



“The weakness is almost bound to happen or is already happening (likelihood) and could have a significant impact on the IJB services, reputation, control, financial position, statutory, regulatory or constitutional compliance if not contained”

Grade 2 - **“Contingent/Insurable Risk”** - Low likelihood, High impact (LH)



“The weakness is unlikely to happen, but would have a significant impact on the IJB services, reputation, control, financial position, statutory, regulatory or constitutional compliance if it did occur”

Grade 3 - **“Housekeeping”** – High likelihood, Low impact (HL)



“The weakness is almost bound to happen or is already happening but is unlikely to have a material impact on the IJB services, reputation, control, financial position, statutory, regulatory or constitutional compliance, and can be contained”

Grade 4 - **“Value for Money”** – High likelihood, Value for money impact (HV)



“The weakness is almost bound to happen or is already happening but if contained would have a positive impact on economy, efficiency and effectiveness in the use of resources”

Where we have identified isolated exceptions in our sample testing, and we consider that: -

- They are unlikely to recur; and
- Would have no significant impact if they should occur,

We have classified them as low likelihood and low impact (LL), discussed them with relevant officers and detailed them in Appendix B to this report.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 1: EXECUTIVE SUMMARY (CONTINUED)

1.7 Our recommendations can be summarised and prioritised as follows:

Recommendation		Overall grading			
		4	3	2	1
2.1	Strategic plan/refresh to be reviewed as required and current plan to be made available online.				
	The Financial Plan be further developed over a 5 year period and linked together with the updated Strategic Plan and Workforce Strategy.				
2.2	Comprehensive assessment of high risk savings areas with appropriate escalation to the Board where service delivery is likely to be adversely affected.				
2.3	Spending plans, annual accounts and annual reports to be published on the IJB website.				
	A clear and timely community engagement process should be timetabled each year in order to obtain the views of the public with regards to service delivery.				
	Communication/Engagement Strategy to be updated.				

1.8 We would like to thank all staff from each of the parent bodies for the co-operation and goodwill we received during the course of our internal audit fieldwork.

For Integration Joint Board Internal Audit Section
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22 November 2019

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS

FINDINGS AND IMPLICATIONS	RISK RANKING		RECOMMENDATION	GRADE	MANAGEMENT COMMENT
	L	I			
<p>Control Objective 1: The Strategic Plan drives the financial strategy and provides the basis for the IJB to present proposals to the relevant parties to allow for any necessary redesign of services and transformational change, influence revenue and capital budgets and to enable the achievement of efficiency savings and the ability to make re-investment opportunities.</p>					
<p>2.1 The strategic plan covers the period 2016-19 while a refresh document was implemented for the period 2018/20. As the refresh document is due to expire in the coming months, this will require both documents to be revisited and either extended with regards to the period they cover or updated and reissued with current and updated plans being made available online.</p> <p>A medium term financial plan covering the three years 2019-2022 is currently in place as approved by committee in March 2019. However, this should be extended to a five year plan which is now the standard medium or long term period within the public sector.</p>	H	L	Strategic plan/refresh to be reviewed as required and current plan to be made available online.	3	A revised implementation plan will be taken to the Joint Board in December 2019

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS (Con't)

FINDINGS AND IMPLICATIONS	RISK RANKING		RECOMMENDATION	GRADE	MANAGEMENT COMMENT
	L	I			
<p>Control Objective 1: The Strategic Plan drives the financial strategy and provides the basis for the IJB to present proposals to the relevant parties to allow for any necessary redesign of services and transformational change, influence revenue and capital budgets and to enable the achievement of efficiency savings and the ability to make re-investment opportunities.</p>					
<p>2.1 Continued</p> <p>Whilst we acknowledge that any long term planning is difficult with annual settlements, appropriate use of sensitivity analysis and probability planning can be useful in terms of giving a high level overview.</p> <p>There is also a need to link the three key documents; Financial Strategy, Workforce Plan and Strategic Plan, to allow a formulated response to be made by the IJB in order to deliver its aspirations and services within budget and within staff availability. These aspirations of output should be documented and SMART based in terms of accountability, progress monitoring and tangible in terms of change.</p>	L	H	<p>The Financial Plan be further developed over a 5 year period and linked together with the updated Strategic Plan and Workforce Strategy.</p>	2	<p>A five year financial plan will be in place by March 2020. Management would still like to caveat the plan that with 1 year budgets, severe issues with workforce demographics and population demographics and even with sensitivity analysis figures will be very much a high level estimate.</p>

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS (Con't)

FINDINGS AND IMPLICATIONS	RISK RANKING		RECOMMENDATION	GRADE	MANAGEMENT COMMENT
	L	I			
Control Objective 3: A comprehensive long term financial planning process is in place.					
2.2 In terms of savings, the 2019-20 budget has been augmented by the use of reserves. This is to allow a period of time where significant change will be required by the IJB in order to deliver on the projected shortfalls in the coming years. Furthermore, the budget has identified a list of savings which could be regarded as high or very high risk. This could result in a position where, efficiencies can be made without affecting safety but there may also be a position where future service delivery may have to be reduced or terminated in order to achieve the level of savings that are required to be made within the near future. In the event of service reduction or service withdrawal then the Chief Officer will have to bring this matter before the IJB for the Board to consider whether such reductions are acceptable or not. In the event of the Board not accepting such reductions or service withdrawal then the Chief officer will need to make appropriate representations to each parent body in terms of additional funding where that is deemed necessary.	H	V	Comprehensive assessment of high risk savings areas with appropriate escalation to the Board where service delivery is likely to be adversely affected.	4	This will be undertaken as part of the budget setting process for 2020/21 and each year thereafter. The efficiency status and affect on service delivery will also be linked into the workforce plan and the effect the gaps in workforce are having on service delivery.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
FINANCIAL PLANNING, MANAGEMENT AND SAVINGS**

SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS (Con't)

FINDINGS AND IMPLICATIONS	RISK RANKING		RECOMMENDATION	GRADE	MANAGEMENT COMMENT
	L	I			
<p>Control Objective 4: The long term financial planning process has been communicated effectively to the IJB Board members, partner organisations and the general public and the IJB has published what it intends to spend in implementing its Strategic Plan.</p>					
<p>2.3 Comprehensive, monthly financial reporting is undertaken by the Chief Finance Officer with the board also being provided with financial updates each quarter. However, current and future spending plans, annual reports and annual accounts are not available on the website. These should be made available for the public to view and potentially provide feedback on.</p>	H	L	Spending plans, annual accounts and annual reports to be published on the IJB website.	3	This will be undertaken by December 2019
<p>Within the covering report submitted to the board regarding the financial plan, it was stated that public engagement within the financial planning process had been limited. We were informed that this was due to time pressures and that a fuller engagement process would be carried out earlier in the next planning cycle.</p>	H	V	A clear and timely community engagement process should be timetabled each year in order to obtain the views of the public with regards to service delivery.	4	This will be considered as part of the next budget setting process
<p>The Communication Strategy also requires reviewing and updating as appropriate as the current version is now out of date.</p>	H	L	Communication/Engagement Strategy to be updated.	3	This will be undertaken by April 2020

SECTION 3 - ACTION PLAN

Ref.	RECOMMENDATION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
2.1	<p>Strategic plan/refresh to be reviewed as required and current plan to be made available online.</p> <p>The Financial Plan be further developed over a 5 year period and linked together with the updated Strategic Plan and Workforce Strategy.</p>	<p>Chief Officer</p> <p>Chief Finance Officer</p>	<p>December 2019</p> <p>March 2020</p>
2.2	<p>Comprehensive assessment of high risk savings areas with appropriate escalation to the Board where service delivery is likely to be adversely affected.</p>	<p>Chief Finance Officer</p>	<p>March 2020</p>
2.3	<p>Spending plans, annual accounts and annual reports to be published on the IJB website.</p> <p>A clear and timely community engagement process should be timetabled each year in order to obtain the views of the public with regards to service delivery.</p> <p>Communication/Engagement Strategy to be updated.</p>	<p>Chief Officer</p> <p>Chief Officer</p> <p>Chief Officer</p>	<p>December 2019</p> <p>March 2020</p> <p>April 2020</p>

APPENDIX A: RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT

Responsibility in relation to internal controls

It is the responsibility of the Comhairle's management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Our responsibility as internal auditors is to evaluate the financial systems and associated internal controls. In practice, we cannot examine every financial implication and accounting procedure within an activity, and we cannot substitute for management's responsibility to maintain adequate systems of internal controls over financial systems. We therefore may not identify all weaknesses that exist in this regard.

Responsibilities in relation to fraud and corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with management. They also have a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remained undetected.

We nevertheless endeavour to plan our internal audit work so that we have reasonable expectation of detecting material fraud, but our examination should not be relied upon to disclose all such material frauds that may exist.

APPENDIX B: ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES AND CONTROLS

ITEM	ISOLATED EXCEPTION	RESPONSIBLE OFFICER	AGREED Y/N	DATE OF DISCUSSION
	None.			