



Western Isles Integration Joint Board

Internal Audit Report 2023/24

Financial Planning

February 2024



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Audit Sponsor	Key Contacts	Audit team
Debbie Bozkurt Chief Finance Officer of the Integrated Joint Board	Michelle McPhail, Corporate Business Manager	Elizabeth Young, Partner Stephanie Hume, Senior Audit Manager Kathryn Daley, Internal Auditor

Executive Summary

Conclusion

Western Isles Integration Joint Board (IJB) has a clear process in place for annual financial planning and review of budgets. There is regular reporting of progress against financial plans to each meeting of the Board and Audit and Risk Committee by the Chief Finance Officer (CFO).

We have however identified a number of opportunities to improve oversight of financial constraints, the use of reserves and alignment to strategic objectives.

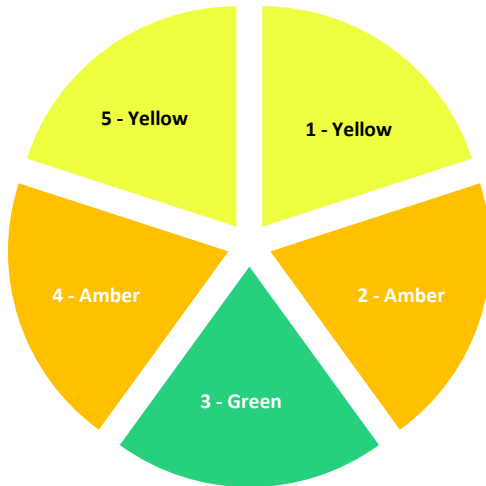
A particular challenge faced by the Integration Joint Board in the current year relates to the development of the financial plan for 2024/25 as progress has been delayed due to the cyber-attack suffered by the Comhairle in October 2023. As a result of this, the Board should seek a formal report from the Council and evaluate the any significant impact on financial planning activities and ongoing monitoring of financial performance throughout 2024/25.

Background and scope

The public sector is facing a challenging financial climate with ongoing budget constraints that are likely to continue for the foreseeable future. It is therefore essential that all public bodies have robust financial planning processes in place to help them to understand and articulate the impact that funding changes will have on their organisation. In 2022/23 the IJB was able to break even once specific reserves were allocated, with no general reserves required to break even.

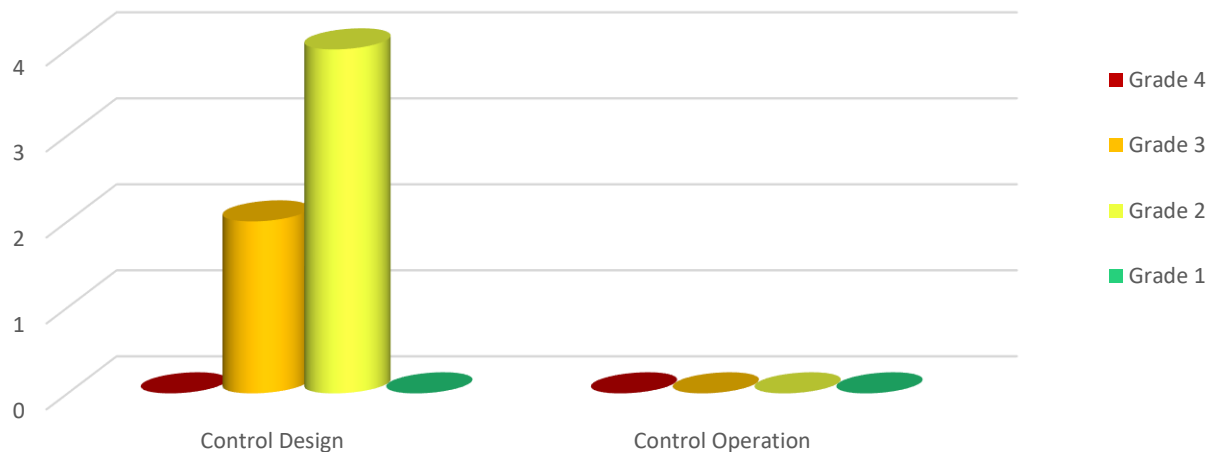
In accordance with the 2023/24 Internal Audit Plan, we reviewed the financial planning and reporting processes in place to ensure they support organisational and service sustainability, facilitate effective decision making and allow for transparent governance and oversight in a timely manner. This included consideration of the use of reserves.

Control assessment



- 1. Western Isles Integration Joint Board has produced detailed financial plans that incorporate consideration of likely funding scenarios and sensitivity analysis.
- 2. Financial planning is consistent with strategic planning and supports the achievement of Western Isles Integration Joint Board's objectives.
- 3. Reasonable assumptions have been identified and incorporated into the financial planning model.
- 4. The financial plan and supporting analysis has been presented within the governance structure.
- 5. There is regular reporting against the financial plan within the governance structure.

Improvement actions by type and priority



We have identified six improvement actions from this review, all of which relate to the design of controls themselves. See Appendix A for definitions of colour coding.

Key findings

Good practice

- The IJB has a clear process in place for the annual update and review of financial plans. We have reviewed the approval process for the 2023/24 financial plan and confirmed that it was presented to the Board as expected in March 2023, and finalised in June 2023.
- The CFO maintains a spreadsheet of reserves that sets out the reserves available to be used in current and future years. We have reviewed this document, as well as the financial plan, to confirm that the reserves allocated correspond with the available reserves.
- The IJB are currently updating their strategic objectives and workforce strategy. We reviewed the current Strategic Plan 2020/21, as well as the Draft Strategic Framework for 2023-26 and confirmed that the financial plan contains funding which is allocated against the objectives outlined in these documents.
- Financial assumptions have been incorporated into the financial plan regarding inflation and availability of uplifts from the Scottish Government. We have reviewed the three-year budget plan to confirm that the data within each column is scaled up appropriately in line with expectations.
- The financial plan is presented to the IJB Board regularly and scrutinised by Board Members. We confirmed comments are addressed and updated at following meetings, and the finalised budget is reviewed and approved by the Board in June. We have reviewed a sample of meeting minutes to confirm discussions are of sufficient scrutiny and detail.

Areas for improvement

We have identified a number of areas for improvement which, if addressed, would strengthen Western Isles Integration Joint Board's control framework. These include:

- The IJB Board requesting a formal report from the Comhairle detailing the steps being taken to ensure ongoing financial monitoring can be undertaken as soon as possible and throughout 2024/25.
- Clearly documenting each of the resource constraints (both financial and workforce) to the organisation and outlining the actions required to ensure the organisation stays within budget.

These are further discussed in the Management Action Plan below.

Impact on risk register

The Western Isles Integration Joint Board corporate risk register (dated January 2024) included the following risks relevant to this review:

- Insufficient financial resources in order for the partnership to deliver its statutory obligations – Reducing envelope of total funding received through NHSWI and CnES as a direct result of funding decisions in very challenged financial construct nationally. In addition, the forecast position regarding reserves further compounds the financial risk. The current risk is further compounded by high locum spend in specific service lines.

As noted within the report there is a significant risk currently in place to the oversight of the financial position of the IJB as a result of the cyber-attack on the Comhairle due to the lack of monitoring taking place on the Comhairle side. As recommended in MAP 4.1 we recommend the management consider the creation of a new strategic risk regarding this until this situation has been fully resolved.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Management Action Plan

Control Objective 1: Western Isles Integration Joint Board has produced detailed financial plans that incorporate consideration of likely funding scenarios and sensitivity analysis.



Yellow

1.1 Use of reserves

As part of the financial planning process, the CFO considers the use of reserves available to the IJB. The CFO maintains a spreadsheet detailing all reserves, divided into specific, earmarked and general. Specific reserves can only be spent on related expenditure unless the Scottish Government have given express permission, or they have asked for these to be returned. Earmarked reserves have been allocated for use in the year.

The CFO will update the document for the reserves being used in the year and what these are allocated against, as well as offsetting this against the current budget. If reserves are not due to be spent in the year, these are allocated to be used to bridge the savings gap at year-end. From discussions with the CFO, we understand that the remaining general reserves will be used in the 2023/24 year.

We have reviewed the Reserves 23/24 working paper and confirmed that there is a listing of specific, earmarked and general reserves. We have also reviewed the three-year budget from 2023 onwards which breaks down expected expenditure in the specific year and any areas of savings or financial flexibility.

Whilst there is a brief explanation outlining what each reserve relates to within the Reserves 23/24 document, the information included is limited. The reserves are titled, and a comment has been added to some reserves relating to their use, but this is not consistently detailed throughout the document. It is also unclear from the document how often this is updated and whether any in year changes have been made and reflected in the budget. Additionally, within the spreadsheet detailing the three-year annualised there is a lack of detail surrounding the allocation and value of these reserves.

Risk

There is a risk that the Western Isles Integration Joint Board does not correctly allocate its reserves due to a lack of clarity around the nature, value and available use of each reserve, leading to financial implications as the financial plan may not reflect the true position of the Board.

Recommendation

We recommend that the CFO clearly details background information for each type of reserve, including its expected use, expected and actual date of use, and remainder available within the Reserves 23/24 document. This detail should be updated as regularly as possible as reserves are allocated and linked to the spreadsheet outlining the three-year annualised budgets. This budget document should be updated with reference to each reserve which is used and its value for continuity and clarity.

Additionally, if any reserves are due to be used up in the year, these should be clearly documented for oversight of remaining resources.

Management Action

Grade 2
(Design)

The Reserve Document going forward into 24/25 will have a clear explanation of the reserve, and date of expenditure, work is already underway to clarify use of 24/25 reserves but noting that any work is within the confines of up and running financial software systems within CnES.

Action owner: Chief Financial Officer

Due date: 30 September 2024

Control Objective 2: Financial planning is consistent with strategic planning and supports the achievement of Western Isles Integration Joint Board's objectives.

Amber

2.1 Future pressures

From our discussions with the CFO and review of the narrative reports presented to the board, it is clear that reductions in funding from the Scottish Government and resources due to a population decline in the Western Isles and recruitment difficulties are expected in future years. The financial performance reports set out the effects of the demographic changes on the Western Isles, including increased costs, recruitment and workforce issues, higher co-morbidities and lower passenger payloads on planes. We have also reviewed the full report regarding the Effect of Demographic Change on the Western Isles, which contains supporting data and analysis.

We have confirmed that these reports contain sufficient information detailing the expected changes in population needs for the Western Isles and the consequential impact on the IJB, such as additional healthcare costs of an aging population, and have been reported to the Board through our review of meeting minutes. We note from discussions and review of documentation that the CFO has performed a risk assessment on the impact of the expected population decline in the Western Isles on NHS Western Isles.

At present there is currently no specific plan in place that outlines and prioritises the actions required to address the financial pressures and ensure the organisation delivers to budget including prioritisation of resources.

Risk

There is a risk that the ongoing changes faced by the IJB are not resolved, due to a lack of appropriate mitigation measures in place, leading to operational and financial pressures through a reduction in workforce and funding.

Recommendation

We recommend management clearly document each of the resource constraints (both financial and workforce) to the organisation and outline the actions required to ensure the organisation stays within budget. This may include the consideration of prioritising resources where required.

Management Action

Grade 3
(Design)

Within the constraints of CnES yet having no financial software systems fully working, Quarterly monitoring reports will detail constraints both financial and workforce, risk and mitigations.

Action owner: Chief Financial Officer

Due date: 20 September 2024

2.2 Detailed Assessment of Financial Constraints in Financial Plan

As part of the financial performance monitoring process, the CFO presents regular updates to the IJB Board that contain narrative around the financial pressures that the organisation is facing and the impact of this on progress towards strategic objectives. We have reviewed the narrative reports for month six and month seven of 2023/24 and confirmed that these include a current assessment of the Boards' financial position and highlight areas of financial constraints.

We have also reviewed the 'Budgets 3 Year' document and confirmed that there is a section that sets out the pressures that the IJB will face in the coming years, including expenditure, general pressures and income. These are then factored into the financial plans for future years.

Although the values of these pressures are summarised in the 'Budget 3 Year' document, the detail regarding the pressure is high level and therefore in some cases it is difficult to match the narrative within the financial reports presented to the actual values in the budget.

Risk

There is a risk that the financial plans do not clearly represent the financial constraints of the IJB due to a lack of detail surrounding the pressures included in the budgets, leading to financial implications as pressures may have been applied incorrectly and the Board will not have oversight of these.

Recommendation

We recommend management incorporate detail of the financial pressures they are facing within the 'Budgets 3 Year' documentation for continuity. An additional section should be added to the document that sets out each financial constraint, with background information, expected impact on financial position and expected recovery actions that will be taken. As part of the regular updates to the Board, the CFO should present the planned recovery activities to allow for a clear understanding of the pressures being faced and evaluation of proposed resolutions.

Management Action

Grade 2
(Design)

The 3-year budget report for 25/26 will detail the financial risks and assumptions where known for 25/26 and the following 2 years, used within the figures presented.

Action owner: Chief Financial Officer

Due date: 31 March 2025

2.3 Update of Strategic Objectives

The IJB is currently operating in accordance with the 2020/21 Strategic Plan. We reviewed the Strategic Plan for 2020/21 which sets out the strategic priorities for the future of the IJB which include better mental health, community services and adult social care and compared this to the most recent financial plan and confirmed that there is allocated funding for mental health services, adult social care and community nursing.

In addition to the Strategic Plan 2020/21, we have also reviewed the existing Workforce Strategy dated 2016/17 and concluded that this is outdated as the majority of analysis was performed prior to 2016.

Management confirmed there is currently an ongoing revision to the Strategic Plan and Workforce Strategy. Following consultation, the Framework is expected to be implemented by June 2024. Additionally, the Workforce Plans are being developed into a three-year plan and Workforce Strategy, and this work was ongoing at the time of fieldwork.

Although the IJB are currently undertaking revision of their strategic and workforce plans, at present the financial plan and strategic documents are not covering the same time period

Risk

There is a risk that the strategic plans do not reflect the current financial position of the IJB due to these being outdated, leading to financial implications if objectives require funding which is unavailable and a potential damage to reputation if these plans are not met.

Recommendation

Recommendations were previously raised in the 2022/23 Strategic Planning Audit regarding the update of the strategic documents (Map 1.1 and Map 1.2) which remain outstanding. As part of this we recommend the strategic documents are updated to reflect the three-year timeframe covered by the financial plan to ensure they are aligned with the financial capabilities of the Board. As part of the financial planning process, the partnership should review the strategic objectives for the coming year and determine whether any revisions need to be made. This should follow the initial draft budget so that there is clear oversight of financial pressures and achievable expectations are set.

Management Action

Grade 2
(Design)

There needs to be more joined up direction between the strategic plans and the financial plans. For 25/26 budget settling all plans will triangulate to ensure they reflect the financial and resources envelopes available.

Action owner: Chief Officer and Chief Financial Officer

Due date: 28 February 2025

Control Objective 3: Reasonable assumptions have been identified and incorporated into the financial planning model.



No weaknesses identified

Financial plans are developed made for a three-year period and factor in the likelihood of inflation, population changes and funding changes. The Scottish Government give each partner an annual budget to adhere to, which moving forward will not include uplifts. Budgets are created based on present establishments meaning that all known factors are included.

Within NHS Western Isles, base costs are inflated by 2/3% per annum. By January, the NHS Western Isles finance team will know what base should be used and if they will receive an inflation uplift from Scottish Government. They can then evaluate what contribution will be made to the Integration Joint Board budget. NHS Boards scenario plan for three years at a time at a base level + 2. All NHS Boards have been informed that there will be three years of no uplifts, which will be factored into the financial plan.

Western Isles Council receive their figures from the Scottish Government in December and will perform the same evaluation. The Council has also been told not to inflate for the next three years. The Scottish Government may give additional funding for the living wage uplift, but this has not been confirmed.

We have reviewed the draft financial plan for 2024/25, as well as the current 2023/24 financial plan and confirmed that each year is scaled up by 3% in line with the base increase expectations. Additionally, in the 'Summary 3 Year Plan' document, there is a note explaining that the NHS has no uplift as per Scottish Government communications, and that the 2023/24 budget requires an additional 3% uplift.

Control Objective 4: The financial plan and supporting analysis has been presented within the governance structure.

Amber

4.1 Budget monitoring

While management have confirmed a draft 2024/25 budget has been developed by the Comhairle following the October 2023 cyber-attack, to date there has not been and will not be any in year monitoring of Adult Social Care budgets, as the systems are still being built. The CFO has confirmed this will cause difficulty in understanding the reserves available to bridge the 2024/25 budget gap.

Further, at the time of fieldwork, the CFO had not received any reports from the Comhairle regarding the progress to resolution of issues arising from the cyber-attack. We have confirmed that there were reports communicated to the Comhairle's Incident Management Team and Corporate Management Team in November 2023, January 2024 and February 2024 but these have not been reported into the relevant IJB committees to allow the IJB management and Board to understand the ongoing impact on the IJB.

Risk

There is a risk that Western Isles Integration Joint Board is unable to bridge their savings gap, due to lack of in-year monitoring and understanding of available reserves, leading to financial and operational implications as overspend or underfunding could occur and be irrecoverable.

Recommendation

We recommend the IJB Board requests a formal report from the Comhairle detailing the steps being taken to ensure ongoing financial monitoring can be undertaken as soon as possible and throughout 2024/25. This should include the progress towards budget finalisation, assurance that the data is correct and the timescales for budget monitoring to commence.

Additionally, the Board should consider the need for an additional risk to be created on the Strategic Risk Register specifically related to the impact of the Cyber incident on the IJB financial planning and monitoring process.

Management Action

Grade 3
(Design)

A letter has been requested and that a response by email provided some assurance regarding the wider services but not directly received assurance in with regards financial monitoring. Further assurance will be sort from the Chief Accountant of CnES.

Action owner: Chief Financial Officer

Due date: 30 June 2024

Control Objective 5: There is regular reporting against the financial plan within the governance structure.

Yellow

5.1 Escalation and Timely Resolution of Issues Identified

We have reviewed the draft IJB Clinical Escalation Process which sets out the route for escalation of issues arising in normal service delivery. When an issue is identified, this should be reported to the Health and Social Care Partnership Senior Management Team (HSCP SMT) who will review the issue and decide whether this should be escalated further. If escalation is decided upon, this will be passed to the Integrated Corporate Management Team (ICMT), who will again review the issue and determine whether escalation is required. This will then be reported to the Full IJB or the IJB Audit and Risk Committee, who will review and determine any possible solutions. If escalation is not required at any stage, this will be deferred back to the individual partners.

The CFO confirmed that she reported the cyber incident to the relevant governance groups when the issue arose in October 2023. However, she noted that she has not received a direct response from the groups or the Comhairle regarding next steps.

While there is a draft escalation process in place, we note this only includes the governance structure and process for reporting issues and does not set out timescales for escalation and alternative routes to be taken.

Risk

There is a risk that issues identified go unreported and unresolved, due to a lack of clarity around timescales for escalation and response requirements, leading to delays in resolution of issues and further impacting the financial planning process.

Recommendation

As part of the draft clinical escalation process, the process should detail the timescales for each level of respondent. When issues are identified, the proposed and agreed resolutions should be documented in an action plan with assigned owners and deadlines for completion.

Additionally, the IJB should consider alternative reporting arrangements if responses are not received in a timely manner, such as the option to report directly to the Board or Audit & Risk Committee in order to resolve delays to responses.

Management Action

Grade 2
(Design)

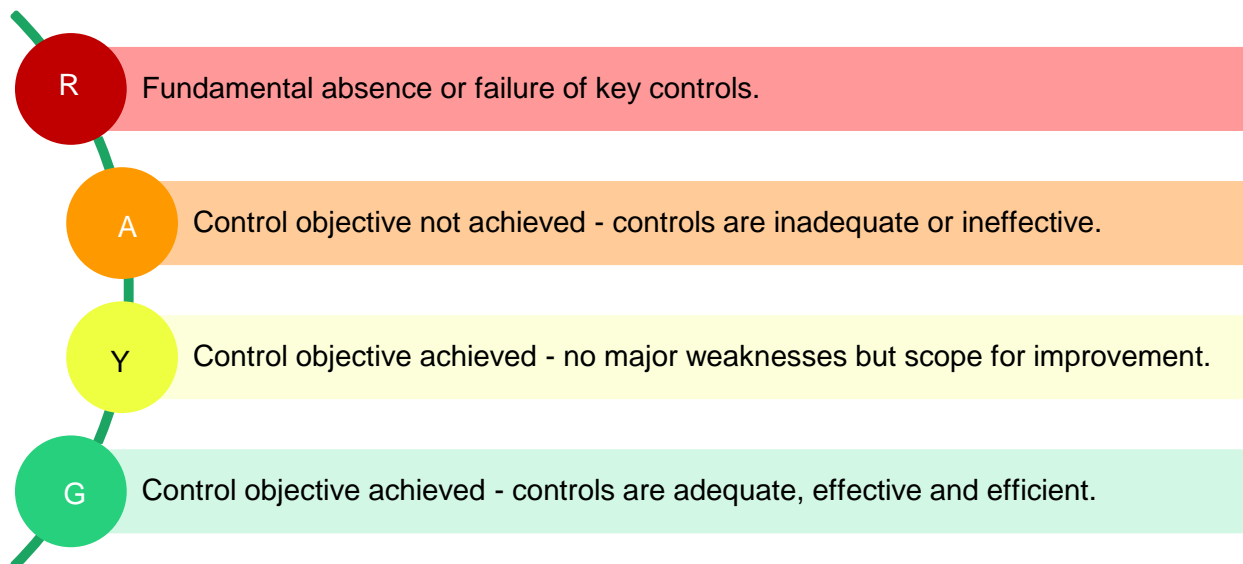
Timescales will be identified as part of the draft clinical escalation process and monitored. Any financial implications will become part of the risk section of the quarterly monitoring report.

Action owner: Chief Officer and Chief Financial Officer

Due date: 30 September 2024

Appendix A – Definitions

Control assessments



Management action grades

4	•Very high risk exposure - major concerns requiring immediate senior attention that create fundamental risks within the organisation.
3	•High risk exposure - absence / failure of key controls that create significant risks within the organisation.
2	•Moderate risk exposure - controls are not working effectively and efficiently and may create moderate risks within the organisation.
1	•Limited risk exposure - controls are working effectively, but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

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