



## Risk, Audit and Performance Committee

<b>Date of Meeting</b>	3 December 2024
<b>Report Title</b>	Internal Audit Report – IJB Budget Setting and Monitoring
<b>Report Number</b>	HSCP.24.107
<b>Lead Officer</b>	Jamie Dale Chief Internal Auditor
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<b>Consultation Checklist Completed</b>	Yes
<b>Directions Required</b>	No
<b>Exempt</b>	No
<b>Appendices</b>	No
<b>Terms of Reference</b>	2. Review and approve the annual audit plans (internal and external) on behalf of the IJB, receiving reports, overseeing and reviewing actions taken on audit recommendations and escalating to the IJB as appropriate.

### 1. Purpose of the Report

- 1.1. The purpose of this report is to present the outcome from the planned audit of the Integration Joint Board (IJB) Budget Setting and Monitoring that was included in the Internal Audit Plan.

### 2. Recommendations

- 2.1. It is recommended that the Committee:

a) Review, discuss and comment on the issues raised in the report.

### 3. Strategic Plan Context

- 3.1. Internal Audit's role is to provide assurance regarding the adequacy and effectiveness of the Integration Joint Board's framework of governance, risk



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management and control. Each of these areas helps ensure that the IJB can deliver on all strategic priorities as identified in its strategic plan.

### 4. Summary of Key Information

#### Assurance Assessment

- 4.1. The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Health and Social Care Partnership's Budget Setting and Monitoring processes.
- 4.2. There is clear governance and reporting lines, roles, and responsibilities. Assurance can also be taken from partners' (Aberdeen City Council (ACC) and NHS Grampian (NHSG) internal processes. There is extensive scheduling for updating the Medium Term Financial Forecast (MTFF) and Budget - a full project plan, tracker and timeline is in place and is being kept up to date, including timelines for obtaining key information, preparing committee reports, stakeholder workshops and management discussions.
- 4.3. There is emerging evidence of enhanced financial planning, and increasing engagement with senior management and budget holders, with regard to the identification and delivery of key savings options required to deliver a balanced budget for 2024/25.
- 4.4. However, the review identified some areas of weakness where the framework of control could be strengthened, specifically:
  - 4.4.1. **Financial Governance, Protocols, and Scheduling** – There are currently no written procedures for budget setting, monitoring or annual reporting, and no schedules for production of budget monitoring information, at an IJB level, though in practice a reasonably consistent approach was being taken. Given key staffing changes it would have been helpful to have procedures fully documented to ensure continuity and consistency of existing processes. Data is generated by partners in line with their own period-end processes, and collated at the IJB level to meet reporting requirements. There is a risk that wider partner demands and priorities could impact on the availability of up to date information for the IJB. Whilst the IJB and its Committees have business planners for upcoming reports, financial reporting is not being scheduled in advance. The need for a consistent approach to reporting was also recently highlighted by External Audit.



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4.4.2. **Finance and Support Resources** – Charges are being applied to the IJB for some corporate resources, but the extent to which budget for these was included in the amounts delegated at the point of the IJB's inception is not clearly recorded. The level of service has also reduced in some instances. The Integration Scheme sets out that any charges/changes are to be agreed between the partners and the IJB, but this agreement has not been documented. Internal reallocation within partners would normally be matched with reallocation of the relevant budget, and this is not apparent. There may be scope for clearer specification of the resource provided, and paid for, by the IJB.

4.4.3. **Use of Reserves** – The Reserves Policy was last formally reviewed in 2019, though it is currently under review for 2024. CIPFA guidance highlights that best practice includes clearly setting out the purpose for each reserve, how and when it can be used, procedures for its management and control, and a process and timescale for review to ensure continuing relevance and adequacy. This has not been explicitly set out for the IJB, and funds notionally set aside for 'integration and change' are continuing to be used to fund in-year budget overspends, rather than from the 'risk fund' or 'working balance' in the first instance. There is limited assurance that the overspends are a result of 'integration and change', and a risk that funds originally set aside to fund investment and delivery of potential savings, may be eroded.

4.4.4. **Budget Setting and Allocations** – The basis for the budget is largely historic, and as a result it may not fully reflect the actual cost of the activities, staff, and commissioned services, required to deliver the IJB's Strategic Plan. It is making use of the resource envelope made available by partners. Notwithstanding the challenging financial environment in which the IJB's partners operate within, there is further scope for the IJB prepare evidence-based cases for strategic resource (re)allocation for partners' collective consideration, as set out in the Integration Scheme and reflected in the IJB's Financial Regulations. There are transformation projects, and there are savings built in to future years of the MTFF, however there is limited evidence of planning to transfer resource to specific parts of the system which require investment, to reduce whole-system impact and costs. This



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could limit incentives for e.g. one partner to invest in changing processes which could reduce costs for the other, as the benefit would not be shared.

4.4.5. **Budget Monitoring** – Forecast accuracy is variable, with some areas (e.g. prescribing and in-year and variable central government funding) presenting particular challenges, and other areas where assumptions have changed significantly within the financial year. There is a risk that government funding announcements made in-year are not in line with reasonable assumptions made as part of the budget setting process. Year-end variances for 2023/24 exceeded original expectations, and plans set out earlier in the year to avoid potential overspends did not fully mitigate them. There is a variable level of management assurance being provided regarding variances highlighted within the IJB's budget monitoring reports. Whilst most variances are being explained, not all partners/service areas are providing sufficient narrative detail to assure stakeholders that appropriate mitigating actions are being implemented, which will address the identified forecast variances, either within the current financial year or in the medium term through the budget process.

4.4.6. **Resource Adjustments** – The IJB budget is not static throughout the financial year. Adjustments are regularly made to reflect revised government funding announcements, particularly for budgets managed by NHSG. Substantial reliance is placed on partners' finance teams to determine and agree the appropriate adjustments, and changes are not always well explained or supported.

4.5. Recommendations have been made for the Partnership to develop its planning and scheduling for financial reporting; to review forecast accuracy and options for obtaining improved data nationally; and ensure the level of detail contained in budget monitoring reports is sufficient to provide assurance over the mitigation of potential overspends; and improved transparency over the use of virements, budget adjustments, and Reserves where required. With regard to budget setting, and development of financial strategy, we have recommended the Partnership review the cost base and allocation of budget between partners, supported by the effective use of business cases, and Directions as appropriate; to include a review of the



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provision of, and costs for, support services recharged to the IJB budget. The Reserves Policy should also be updated.

### Management Response

- 4.6. Significant changes and improvements have been made in recent years. Initiatives such as a detailed savings tracker and regular review and scrutiny meetings with SLT ensure that the focus remains on delivering target savings.
- 4.7. In terms of the budget setting process, a well-established MTFF process is in place. Added to this, a draft Budget Protocol document has been developed to better identify the key stages in developing the MTFF and annual budget, enabling a shared understanding of budget processes, options and impacts and the delivery of a balanced budget. Importantly, the process is connected to NHSG and ACC processes in terms of reaching agreement on allocations, including the need for wide stakeholder engagement for some of the more challenging future savings options.
- 4.8. The Budget Protocol is further underpinned by a much more detailed and live Budget Setting Pathway document, with more than 100 separate activities spread over the 4 quarters of the financial year.
- 4.9. Agree with the recommendations, all of which are “moderate”. Management actions have been duly provided, where appropriate.

### **5. Implications for IJB**

- 5.1. Equalities, Fairer Scotland and Health Inequality – An equality impact assessment is not required because the reason for this report is for the RAPC to discuss, review and comment on the contents of and Internal Audit Report and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 5.2. Financial – There are no direct implications arising from this report.
- 5.3. Workforce – There are no direct implications arising from this report.
- 5.4. Legal – There are no direct implications arising from this report.
- 5.5. Unpaid Carers – There are no direct implications arising from this report.



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- 5.6. Information Governance – There are no direct implications arising from this report.
- 5.7. Environmental Impacts – There are no direct impacts arising from this report.
- 5.8. Sustainability – There are no direct impacts arising from this report.
- 5.9. Other – there are no other impacts arising from this report.

### 6. Management of Risk

- 6.1. **Identified risks(s):** The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the resultant report.
- 6.2. **Link to risks on strategic risk register:** The Internal Audit Plan, and this output report, is developed following consideration of the Aberdeen City Health and Social care Partnership Risk Register and through consultation with management.
- 6.3. **How might the content of this report impact or mitigate these risks:** Where risks are identified during the Internal Audit process, recommendations are made to management in order to mitigate these risks.