

FTF Internal Audit Service

Financial Management Report No. AN05/23

Issued To: G Smith, Chief Officer, Angus IJB
S Berry, Chief Finance Officer, Angus IJB

**C Wyllie, Service Leader - Internal Audit, Angus Council
Angus Integration Joint Board
External Audit – Audit Scotland**

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Draft Report Issued	30/05/2023
Management Responses Received	05/06/2023
Target Audit & Risk Committee Date	21/06/2023
Final Report Issued	06/06/2023

CONTEXT AND SCOPE


1. The Angus Integrated Joint Board (IJB) Strategic Risk Profile includes a revenue financial risk on Financial Management.
2. Our audit identified procedures in place to identify and manage the risks associated with Financial Management. The audit specifically considered the following objectives:
 - Budget monitoring reports are provided to management and governance level on a regular and timely basis (as soon after the end of the relevant reporting period as possible), in an appropriate and understandable format, and are supported by detailed monitoring reports taken from the ledger.
 - Budgetary monitoring reports provided at management and governance level provide adequate explanations for any budget variances and any remedial action to be taken, where necessary.
 - Risk SR03 is adequately described and scored, with appropriate assurance in place and provided to the IJB over mitigating controls.

Public services need reliable, accurate and timely information with which to manage services, inform users and account for performance. Clinical and Care Managers make many, often complex, decisions about priorities and the use of resources. Clinical and Care Managers, Service planners, Service users and members of the public more widely, need accessible information to make informed decisions. Regulators and government departments need information to satisfy their responsibilities for making judgements about performance and governance.

The assignment concluded on the system adequacy and control application and has an overall opinion based on the criteria listed under 'Definition of Assurance' in Section 4 below. The risk associated with each of the weaknesses identified is categorised using the criteria listed under 'Assessment of Risk' in Section 4.

AUDIT OPINION

3. The Audit Opinion of the level of assurance is as follows:

Level of Assurance		System Adequacy	Controls
Reasonable Assurance		There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	Controls are applied frequently but with evidence of non-compliance.

4. A description of all definitions of assurance and assessment of risks are given in Section 4 of this report.

EXECUTIVE SUMMARY

5. We concluded that the objectives of this audit have been met and give a reasonable level of assurance that procedures in place to identify and manage the risks associated with Financial Management are sound and continuously applied. Based on the latest information available at the end of February 2023, the overall projected financial position for Angus IJB for the year to March 2023 is an under spend of c£3.691m mostly attributable to unfilled vacancies and reduced uptake of care home beds.
6. The financial position also includes funding to the partner bodies to support wider system pressures. Based on the February out-turn, there is projected to be a significant movement in reserves during the year, with a total closing balance of £15.7M, down from £35.4M at the end of the last financial year. The movement includes c£16M of unused Covid funding reverting to the Scottish Government.
7. The detail provided in risk SR03: Financial Management is adequate and appropriately highlights the risk and the reasons for the high score. The risk is monitored and reported regularly at operational level. We have recommended below that the risk is reviewed and controls are updated to include any processes designed to ensure long term sustainability.
8. Budget reports are provided either automatically to Health Budget Holders per the NHS timetable or on a self-service basis for Angus Council Budget Holders. These reports are usually available monthly throughout the year with the exception of year end when the final accounts are produced.
9. Budget reports are provided at various levels from high level summaries to detailed costs per ledger code.
10. Regular meetings are held with Budget Holders allowing challenges, explanations of variances and forecasting. Ultimately the information gathered from Budget Holders is used to provide the Board with a financial update and forecast giving a detailed narrative of budget variances and actions being taken. We have recommended an enhancement to the monitoring of savings, as well as formally asking IJB members for their views on the format of the Finance Report.


ACTION


11. The action plan at Section 2 of this report has been agreed with management to address the identified weaknesses. A follow-up of implementation of the agreed actions will be undertaken in accordance with the Internal Audit reporting protocol.


ACKNOWLEDGEMENT

12. We would like to thank all members of staff for the help and co-operation received during the course of the audit.

**A Gaskin BSc. ACA,
Chief Internal Auditor**

Action Point Reference 1	
Finding:	
Given the revised Strategic Commissioning Plan (SCP) 2023 – 2026 does not yet demonstrate that it is affordable over its 3-year duration, with the Strategic Financial Plan showing a c£8M shortfall by year 3 of the same 3 year planning period, monitoring of interventions will be crucial. Financial monitoring reports currently only show the current projection against assumed savings as a 3 year total.	
Audit Recommendation:	
We would recommend enhancement of this section to clearly distinguish between identified and achieved savings against a planned trajectory.	
Assessment of Risk:	
Moderate	 Weaknesses in design or implementation of controls which contribute to risk mitigation. Requires action to avoid exposure to moderate risks to achieving the objectives for area under review.
Management Response/Action:	
Future Finance Reports to show planned, projected and achieved savings.	
Action by:	Date of expected completion:
Chief Finance Officer	August 2023

Action Point Reference 2	
Finding:	
Whilst there is regular dialogue with IJB members including on finance related topics, members have not been formally asked for their views on the format of the Finance Report. Finance Reports often use technical language and it is important that the message is clearly conveyed.	
Audit Recommendation:	
We would recommend formally asking IJB member their views on the current Finance Report template and any enhancements they make like to see.	
Assessment of Risk:	
Merits attention	 <p>There are generally areas of good practice. Action may be advised to enhance control or improve operational efficiency.</p>
Management Response/Action:	
Through a future Finance Report, the IJB will seek the views of IJB members regarding the format and possible enhancements to finance reporting. It will be noted that separately, there has been previous requests for brevity in terms of IJB reports.	
Action by:	Date of expected completion:
Chief Finance Officer	August 2023

Action Point Reference 3	
Finding:	
Whilst one of the controls noted against the Finance risk is to <i>Maintain progress towards delivery of actions within Strategic Financial Plan</i> , there is no overt link to savings/ planned intervention and transformation work.	
Audit Recommendation:	
We would recommend that the risk is reviewed and controls are updated to include any processes designed to ensure long term sustainability.	
Assessment of Risk:	
Moderate 	Weaknesses in design or implementation of controls which contribute to risk mitigation. Requires action to avoid exposure to moderate risks to achieving the objectives for area under review.
Management Response/Action:	
Reflecting the new Strategic Commissioning Plan and associated Strategic Delivery Plan, the IJB will introduce a new “control” in risk reports reflecting the “progression of actions within the SDP intended to ensure the IJB can close out projected financial shortfall.”	
Action by:	Date of expected completion:
Chief Finance Officer	October 2023

Control 1

Budget monitoring reports are provided to management and governance level on a regular and timely basis (as soon after the end of the relevant reporting period as possible), in an appropriate and understandable format, and are supported by detailed monitoring reports taken from the ledger.

1. The evidence gathered by Internal Audit gives assurance that budget monitoring reports are available to budget holders and management on a regular basis with training being provided to budget holders. We have reviewed the training materials and can provide assurance that these are in depth and tailored to the roles of budget holders. Informal feedback received is positive. The budget reports are available with different level details as required by the user.
2. The nature of the Angus IJB means that there are budget holders and services from Angus Council and NHS Tayside, and as a result of this the Angus IJB have to operate two financial systems in addition to producing integrated reporting.
3. There is a Finance Team who have experience in both systems who support all budget holders and ultimately pull together an integrated financial report which is presented to the Angus Integrated Joint Board at their bi-monthly meetings. In our opinion the reports give sufficient detail on each service to keep the Board informed, are in an appropriate and understandable format, and allow informed decisions to be made.
4. The Finance Team have held a series of training sessions covering “Induction for budget holders including understanding your budget” and “Understanding your financial codes”. These sessions are tailored for Angus Council and NHS budget holders. The training highlights that the budget holders are accountable for their budget and what the role of the Finance Team is.
5. Budget reports for monitoring purposes are in the main monthly, linked to NHS Tayside timetable for the Health Teams and the Angus Council timetable for the Council Teams. The Health Budget reports are usually issued automatically around 8 days after the period end. The Council reports are available through a self-service budget module using XQuery reports.
6. Internal Audit reviewed examples of all budget monitoring reports and observed the different levels available from summary high level reports giving overall net totals per cost centre, to detailed costs for each financial code within each cost centre. This provides sufficient information to allow Managers to drill further into the information on each cost centre if required.
7. In addition to the reports which are taken direct from the ledgers, other information to support budget monitoring such as staff cost monitoring, which details the direct staff costs, expenses and overtime etc. allocated to each team, is routinely provided to budget holders.

Control 2

Budgetary monitoring reports provided at management and governance level provide adequate explanations for any budget variances and remedial action to be taken, where necessary.

8. Budget meetings are held between Finance and the budget holders during the month to review the position and discuss developments to support forecast assumptions. Comments/notes are input to the budget module for the Council Teams, this can be done by either Finance or the budget holder. In Health this is tracked by email communication, meeting notes, monitoring sheets, and a condensed summary of variances note. We are satisfied that at operational level, this provides a robust system for documenting and following up on any remedial actions agreed.
9. Once both the Health and Council teams have completed monthly monitoring this is used to produce an integrated Angus IJB financial position which is reported as a standing item at the bi-monthly Angus Integration Joint Board.
10. Internal Audit reviewed a sample of the Angus Health and Social Care Integration Joint Board Finance Reports which are available online. The reports provided the Board with an update on the financial position including full year projections, update on reserve financial planning, financial risks and governance.
11. The reports contained detailed narrative per service area, highlighting any over or under spend and how these are to be offset. At a service level the reports also referred to where plans were being developed to address any issues highlighted, and in some cases narrative was included which indicated that improvement plans were being considered at the same committee meeting. Where appropriate the report also highlights if issues identified are local or national issues, and whether this causes some uncertainties e.g. delays due to national procurement capacity, ongoing discussion between NHS Tayside and Tayside IJBs.
12. Given the revised Strategic Commissioning Plan (SCP) 2023 – 2026 does not yet demonstrate that it is affordable over its 3-year duration, with the Strategic Financial Plan showing a c£8M shortfall by year 3 of the same 3 year planning period, monitoring of interventions will be crucial. Financial monitoring reports currently show the current projection against assumed savings as a 3-year total. We would recommend enhancement of this section to clearly distinguish between identified and achieved savings against a planned trajectory.
13. Development Sessions and Liaison meetings are regularly held with members of the Board which include a finance induction for any new members. The Chief Financial Officer provides input to these sessions and induction includes Financial Reporting, Budget Setting, Financial Planning, Financial Governance, and Financial Management. Internal Audit were informed that the sessions are well received, and the verbal feedback has always been positive.
14. There would be benefit, given the importance of these issues, in ensuring that all members are able to understand the technical language used in finance reports and that this does not obscure key messages. Whilst this provides an opportunity for members to share their views, as a matter of best practice, we would recommend formally asking IJB members for their views on the current Finance Report template and any enhancements they make like to see.

Control 3

Risk SR03 is adequately described and scored, with appropriate assurance in place and provided to the IJB over mitigating controls.

15. Risk SR03 – Financial Management: The risk is described as failure to develop and implement a balanced financial plan will lead to a risk of unsustainable services and is a priority 1 risk with an inherent risk of 25 (highest level), a current residual risk of 20 (risk with mitigations), and planned/proposed control (target) score of 16. Given the uncertainty of national funding constraints, clarity, the inflationary environment and national recruitment difficulties it is our opinion that the scoring is reasonable. The current score has remained at 20 during the financial year.
16. Internal Audit has previously reported that there is currently no direct reporting to the IJB on its risk profile; nor direct, overt assurance on each of its strategic risks to the IJB. An action to address this area was agreed as part of our 2020/21 Annual Report but currently remains outstanding due to the demands on management.
17. Whilst the Finance Report makes clear reference to the strategic risk and its scores and in our opinion the information contained is sufficient to allow readers to conclude whether overall the current scoring is reasonable, future risk assurance reporting should allow members to reach overt conclusion on scores (both target and current), the adequacy and effectiveness of current controls and the adequacy of mitigating actions (i.e. future planned controls) to achieve the target score. Given the existing agreed action point, no additional recommendation has been made in this report.
18. In the main the mitigating actions are to continue dialogue with partners, monitoring and continuing to progress with actions such as staff recruitment, addressing issues and recovery work. Whilst one of the controls noted is to maintain progress towards delivery of actions within Strategic Financial Plan, there is no overt link to savings and transformation work. We would recommend that the risk is reviewed and controls are updated to include any processes designed to ensure long term sustainability.
19. It is the opinion of Internal Audit that these actions are reasonable and reflect the resources available. Internal Audit is aware of recent changes to the financial support structure and endeavours to recruit to these posts and others throughout the Angus Health & Social Care Partnership.
20. Training has also been provided for budget holders with more being scheduled in the coming year. It has also been highlighted that some of the progress and planned interventions which were delayed due to Covid have recommenced.
21. Internal Audit received extracts of the Risk Register from March 2022 and December 2022 showing the SR03 risk and could see that although these were largely the same and scoring had not changed there were some additional comments added regarding mitigations which highlight that there has been some form of review.
22. It is noted that the Financial Reports which are sent to the IJB also include a section on risk. The report highlights that Corporate Risks are formally monitored through the Angus Clinical Care and Professional Governance Group. The reports also give details of the current financial risk and if there has been any change from what has previous been reported.
23. The risk section of the Financial Reports included a table highlighting the main mitigating actions, the inherent, residual and planned risk scores (without mitigations, with mitigations, and target scores) and stated if there were changes. Note that these scores





have not changed through the 2022/23 financial year. There is also a paragraph informing that there are long term financial governance issues which are being monitored through the IJB Audit Committee. A summary of the main issues is set out in a Financial Governance Appendix to the report.

24. The Financial Governance Appendix includes a highlight of the issue, the status, implications of the status, action required and commentary.
 25. The detail provided in SR03: Financial Management is adequate and appropriately highlights the risk and the reasons for the high score. The risk is monitored and reported regularly giving assurances that mitigating actions are being considered and implemented.
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Section 4 Definitions of Assurance and Recommendation Priorities

Definition of Assurance





To assist management in assessing the overall opinion of the area under review, we have assessed the system adequacy and control application, and categorised the opinion based on the following criteria:

Level of Assurance		System Adequacy	Controls
Substantial Assurance		A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Controls are applied continuously or with only minor lapses.
Reasonable Assurance		There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	Controls are applied frequently but with evidence of non-compliance.
Limited Assurance		Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Controls are applied but with some significant lapses.
No Assurance		Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant breakdown in the application of controls.

Section 4 Definitions of Assurance and Recommendation Priorities

Assessment of Risk

To assist management in assessing each audit finding and recommendation, we have assessed the risk of each of the weaknesses identified and categorised each finding according to the following criteria:

Risk Assessment		Definition	Total
Fundamental		Non Compliance with key controls or evidence of material loss or error. Action is imperative to ensure that the objectives for the area under review are met.	None
Significant		Weaknesses in design or implementation of key controls i.e. those which individually reduce the risk scores. Requires action to avoid exposure to significant risks to achieving the objectives for area under review.	None
Moderate		Weaknesses in design or implementation of controls which contribute to risk mitigation. Requires action to avoid exposure to moderate risks to achieving the objectives for area under review.	Two
Merits attention		There are generally areas of good practice. Action may be advised to enhance control or improve operational efficiency.	One