

# Internal Audit Annual Assurance Report 2023/24 for Midlothian Health and Social Care Integration Joint Board

## 1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:

“The chief audit executive [MIJB’s Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

## 2 Opinion on the Governance, Risk Management and Internal Control

2.1 My opinion is that the Midlothian Health and Social Care Integration Joint Board’s governance arrangements, risk management and systems of internal control are operating satisfactorily. There has been good progress made by Management during the year with the completion of recommendations.

2.2 The MIJB operates under good public sector practice governance arrangements through its Board and Committee meetings that support scrutiny and transparency of decisions made. There is good compliance by the MIJB of the requirements of the Public Bodies (Scotland) Act 2014 and the guidance through its Directions to Partners (NHS Lothian and Midlothian Council) for the delivery of the services. The vision, strategic objectives and outcomes going forward are reflected following extensive consultation in the Strategic Plan 2022-2025, approved by the Board in April 2022. The MIJB is making continued progress towards delivering integrated Health and Social Care services.

2.3 The current MIJB Local Code of Corporate Governance (Local Code), which was approved by the Board on 8 April 2021, sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The Local Code complies with the CIPFA/SOLACE ‘Delivering Good Governance in Local Government Framework’ (2016) in all significant aspects. It reflects the changing context of integration and the appropriate framework for effective governance of the MIJB’s business, including its role as the strategic commissioning body i.e. setting out when responsibility lies with the Board or where reliance is placed on the arrangements in place at its Partners. Governance arrangements in place are generally sound and are being further developed. The Internal Audit high level review and assessment of the Local Code has identified aspects of governance arrangements where some improvement is required.

- 2.4 A Risk Management Policy, reporting regime and risk register highlighting the MIJB strategic risks, mitigating controls, residual risk and accompanying actions have been regularly reviewed, updated and reported during the year to the Audit and Risk Committee to fulfil its oversight role to monitor the IJB's risk management arrangements. The MIJB Risk Management Policy is now in need of review which is currently being undertaken and a revised Risk Management Policy will be submitted to the Audit & Risk Committee for approval in 2024.
- 2.5 At the MIJB's December meeting a paper laying out an initial financial plan for 2024/25 to 2028/29 was presented. For 2024/25 this projected an opening financial gap of c. £12.6m, split between £4.8m in health and £7.7m for social care. The MIJB Budget Setting 2024/25 paper approved at the MIJB March meeting that this position was prior to the Scottish Government's own budget setting process, the impact of which was to increase the IJB's gap to a forecast position of £14.3m. The forecasts were subsequently revised and additional funding was made available by Midlothian Council. However there remains a financial pressure for Midlothian IJB in 24/25 of c. £10.0m. A series of proposals have been brought forward by the operational management teams which allowed the IJB to set a balanced budget for 2024/25.
- 2.6 The MIJB Five Year Financial Plan 2024/25-2028/29 submitted to the MIJB meeting in April 2024 stated the following the five-year plan presented to the IJB in December 2023 projected a total financial gap from 2024/25 to 2028/29 of £99.5m. Having revised and reviewed the forecast and having incorporated the actions identified as part of the 2024/25 IJB budget setting the total projected gap is now £39m. Further work and proposals are now required to move towards a balanced position for 2025/26 and the years thereafter. The IJB Strategic Plan is currently under review and work will continue to ensure that the financial plan is clearly mapped onto and driven by the Strategic Plan.
- 2.7 Further improvements in governance, risk management and internal control will be made by Management through the full implementation of previous Internal Audit recommendations. Internal Audit will continue to follow-up on their implementation and present progress reports.

### 3 Scope of the Internal Audit Annual Plan 2023/24

- 3.1 We summarise below the work we have undertaken to obtain assurances over the arrangements in place for each area considered and our conclusions on the effectiveness and appropriateness of these arrangements are listed in section 4.

#### **Local Code of Corporate Governance**

- 3.2 In considering the delivery of integrated services, we carried out a high level review of the Local Code of Corporate Governance to assess compliance with the requirements of the following seven core principles set out in the 2016 CIPFA/SOLACE Framework:
- clarity of roles and responsibilities including arrangements for the operation of Standing Orders;
  - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
  - ensuring openness and comprehensive stakeholder engagement;
  - defining outcomes in terms of sustainable economic, social, and environmental benefits;
  - determining the interventions necessary to optimise the achievement of the intended outcomes;
  - developing the entity's capacity, including the capability of its leadership and the individuals within it; and
  - implementing good practices in transparency, reporting, and audit to deliver effective accountability.

### **Strategic Planning**

- 3.3 In considering the delivery of integrated services we attended the MIJB meetings to observe planning, approval, monitoring and review activity of the Midlothian Health and Social Care Integration Joint Board's business and performance.

### **Risk Management**

- 3.4 We carried out a high level assessment of processes for managing and monitoring risks to determine the effectiveness of arrangements for managing uncertainty over the achievement of the strategic objectives of the MIJB. The Internal Audit review of medium term financial planning identified a recommendation for the IJB Risk Register to include a specific risk in relation to the Board's financial challenges in the years ahead.

### **Financial Management**

- 3.5 A specific review of medium term financial planning was undertaken in 2022/23, this was completed in partnership with NHS Lothian internal audit team resource. We reviewed the effectiveness of processes associated with the financial planning of the resources delegated to the partnership and the monitoring and reporting of financial activities in a transparent manner in accordance with best accounting practice. Internal audit have one remaining recommendation for implementation from this review being the following: The Medium-term Financial Plan should be developed to include a more explicit link to the Midlothian IJB Strategic Plan and its priorities for the years ahead. This should also include the Board's strategic priorities in a local and national context, alongside the financial risks associated with the plan's assumptions. Internal Audit will continue to monitor the implementation of this recommendation going forward.

- 3.6 The recommendations from the one completed full review of the Publication Scheme are detailed in section 6.1 below.

### **Annual Audit Work**

- 3.7 Furthermore Midlothian Council's Internal Audit resources were also deployed in undertaking the following annual audit work for the MIJB during the year:
- **Recommendations Follow-Up Review** (Undertake two reviews. Refer to Section 5 below).
  - **Administration of Audit Scotland Reports** (Monitor publication of Audit Scotland reports and co-ordinate submission by Management of relevant Audit Scotland Reports to the MIJB Audit and Risk Committee / Board).
  - **Audit Committee Self-Assessment** (Development of templates that will assist the Chair in undertaking a self-assessment of the MIJB Audit and Risk Committee against the 2022 revised CIPFA best practice guidance and in implementing any areas of improvement in support of their development).
  - **Attendance at Board / Committee meetings** (Prepare for and attend MIJB Board / Audit and Risk Committee meetings and assisting in arranging the MIJB Board Self-evaluation).
  - **Planning for 2024/25** (Update Audit Universe, develop and consult on coverage within the MIJB Internal Audit Annual Plan 2024/25).
- 3.8 For assurance purposes, the MIJB Audit and Risk Committee was made aware of reports by other bodies that relate to the business of the MIJB including those by the Partners' Internal Auditors, Audit Scotland and other national scrutiny and audit bodies.

## 4 Summary Findings and Conclusions arising from Delivery of the Internal Audit Annual Plan 2023/24

### 4.1 Local Code of Corporate Governance

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

- 4.1.1 The Integration Joint Board is a legal entity in its own right and as a public body it should operate under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities.
- 4.1.2 A Local Code of Corporate Governance and Standing Orders have been approved by the Board. These documents encapsulate the public sector good practice principles and by following them the Board demonstrates sound governance arrangements.
- 4.1.3 We conducted a high level review of the MIJB's updated Local Code of Corporate Governance and consider that the Governance arrangements are generally sound, although there is scope for improvement in compliance with some parts of the CIPFA/SOLACE Framework as set out in section 5 below.
- 4.1.4 The Scottish Government approved the new Midlothian Scheme of Integration scheme in May 2023.
- 4.1.5 The IJB has taken steps to improve governance arrangements in a number of areas:
- A Self-evaluation review of the IJB Board was completed in August 2023.
  - Scheme of Publication
- 4.1.6 We have made no recommendations in respect of the corporate governance arrangements of the Integration Joint Board in this report.

Conclusion: Governance arrangements in place are generally sound and are being further developed. The Internal Audit high level review of the Local Code of Corporate Governance has identified aspects of governance arrangements where some improvement is required, as set out in Internal Audit recommendations made in previous years or the current year.

## 4.2 Internal Control and Governance – Strategic Planning

Delivering integrated services which are effective and efficient requires an agreed formal statement of the MIJB's vision and intended outcomes and plans as well as exercising strategic leadership to deliver those outcomes.

- 4.2.1 Our attendance at virtual Board meetings and review of the Minutes of meetings which we did not attend continues to indicate that strong strategic leadership is in place and that the Health and Social Care partners are working together in a constructive way.
- 4.2.2 A Strategic Plan 2022-2025 has been developed and approved by the IJB in April 2022, which sets out the vision and values for the IJB. Community engagement was at the heart of developing the new Strategic Plan in line with good practice. However, this Strategic Plan is currently being reviewed to allow it to be linked to the MIJB Five Year Financial Plan 2024/25-2028/29.
- 4.2.3 Legislation requires that the specification of what action the delivery partners are required to undertake are set out in formal instructions, referred to as Directions. MIJB Directions for 2023-24 were issued to the Chief Executives of Midlothian Council and NHS Lothian on the 31<sup>st</sup> March 2023. An IJB Directions Half Year Report was provided to MIJB in September 2023.
- 4.2.5 We have made no recommendations in respect of governance arrangements in this report. Action required by Management is clearly identified, understood and ongoing.

Conclusion: The MIJB is demonstrating strategic leadership by developing and clearly communicating its purpose and vision and its intended outcomes for service users. The vision, strategic objectives and outcomes are reflected in the Strategic Plan 2022-2025, although this is being reviewed to ensure greater linkage with the MIJB Five Year Financial Plan. The MIJB is making continued progress towards delivering integrated Health and Social Care services.

### 4.3 Risk Management

Risk management is a process of identifying potential risks to the achievement of objectives in advance, analysing them and taking precautionary steps in order to mitigate those risks, thus managing the effect of uncertainty on objectives.

- 4.3.1 Risk management is an important and integral part of good governance and a system of internal controls. It is crucial that risks to the achievement of outcomes are identified and managed.
- 4.3.2 The MIJB has an approved Risk Management Policy in place which sets out the risk management framework and process, roles and responsibilities, as well as monitoring arrangements. This is now out of date and is being revised and will be approved by the MIJB Audit & Risk Committee in 2024.
- 4.3.3 Risk management is an integral part of all activities and must be considered in all aspects of decision making. The standard template for decision-making reports to the MIJB and its Committees includes a section on implications covering risk. When taking a longer-term view with regard to decision making, risks associated with the potential conflicts between the MIJB's intended outcomes and short-term to medium term financial constraints are not particularly well expressed.
- 4.3.4 The MIJB needs to gain assurance on risks associated with delivering services through the partners. Midlothian has recognised that the risks facing the MIJB are those which relates to the MIJB's own business. Operational risks facing the partners are the concern of the partners except and until a partner risk becomes so significant that it would impact upon the MIJB's Strategic Plan. Implicitly this is recognised in the Risk Management Policy in that the partners should regularly bring the relevant risks to the attention of the MIJB.
- 4.3.5 The MIJB maintains a risk register which is reviewed regularly by the relevant risk owners, scrutinised by the MIJB Audit and Risk Committee at its quarterly meetings and reported every quarter to the Board to ensure that the MIJB is kept informed of its key risks and the actions undertaken to manage these risks. The risk register is comprehensive and responsibilities for managing individual risks are clearly allocated although the emerging risk in relation to the future financial challenges facing MIJB requires to be added to the risk register.
- 4.3.6 We have made no recommendations in respect of risk management arrangements in this report.

Conclusion: Effective risk management processes are in place. There is an opportunity to assess the content of the MIJB Risk Register against the Strategic Plan 2022-2025 that has been developed and approved to ensure the MIJB Risk Register reflects the strategic risks facing the MIJB against the achievement of objectives and priorities set out in the Strategic Plan, improvements in reflecting the risk of potential future financial constraints have now been reflected in the risk register and is being monitored.

## 4.4 Financial Management

A strong system of financial management is essential for the successful implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

- 4.4.1 At the MIJB's December meeting a paper laying out an initial financial plan for 2024/25 to 2028/29 was presented. For 2024/25 this projected an opening financial gap of c. £12.6m, split between £4.8m in health and £7.7m for social care. The MIJB Budget Setting 2024/25 paper approved at the MIJB March meeting that This position was prior to the Scottish Government's own budget setting process, the impact of which was to increase the IJB's gap to a forecast position of £14.3m. The forecasts were subsequently revised and additional funding was made available by Midlothian Council. However there remains a financial pressure for Midlothian IJB in 24/25 of c. £10.0m. A series of proposals have been brought forward by the operational management teams which would allowed the IJB to set a balanced budget for 2024/25.
- 4.4.2 The IJB's budget setting amounts to agreeing the budget offers from the Partners, then allocates the equivalent annual budget to the Partners. Partner budget offers for 2022/23 were agreed in March 2022. In March 2023, the IJB agreed the recommendation not to accept the IJB budget offer from Midlothian Council for 2023/24 as it was not in line with the parameters set by Scottish Government. Further ongoing work to develop a balanced budget has been undertaken and a financial recovery options report is being presented to the June 2023 IJB requesting agreement to which recovery actions should be progressed by officers to support the subsequent funding gap.
- 4.4.3 During the year, the Board has received financial updates on the expected outturn for the year on an appropriate format as identified above early warning of financial issues has been provided through this reporting.
- 4.4.4 At the December 2021 meeting, the Audit and Risk Committee agreed to recommend to the Board the adoption of the CIPFA Financial Management Code, in so far as it applies to the operation of the IJB subject to a further report regarding how the FM Code would apply to the IJB and how assurance would be sought on it. In March 2022, it received a report which concluded that *"some standards do not apply to the IJB and, of the rest, the IJB is delivering against them. That said, this analysis highlights that the development of the multi-year, balanced, financial plan is critical."*
- 4.4.5 We reviewed the extent that the CIPFA Financial Management Code applies to the IJB, evidence suggests that the IJB fully complies with the code other than areas around demonstrating clarity on financial sustainability for the future and reliance on partners for value for money appraisals, which requires further ongoing work. The areas of the CIPFA FM code considered only partially compliant are:
- Part E: (The financial management style of the authority supports financial sustainability);
  - Part F: (The authority has carried out a credible and transparent financial resilience assessment);
  - Part G: (The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members);
  - Part I: (The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans);

Part L: (The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves);

Part M: (The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions); and

Part N: (The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability).

4.4.8 We have made no recommendations in respect of financial management arrangements in this report, although relevant recommendations were included in the Internal Audit Medium Term Financial Planning review.

Conclusion: An appropriate and balanced medium term financial plan remains under development with regular reporting being provided on progress, however budget pressures and the requirement for recovery plans to be monitored result in further work being required to demonstrate financial sustainability moving forward.

The budgetary monitoring process has been appropriate during the year providing the Board with sufficient information to allow for effective budget monitoring.

Whilst the IJB does comply with the CIPFA Financial Management Code in most areas, there are a number of areas where full compliance will require further development of financially sustainable plans moving forward.

## 5 Recommendations Follow-Up Reviews

5.1 The Internal Audit Follow-up of Recommendations Report was presented to the MIJB Audit and Risk Committee in December 2023. This showed good progress with the completion of 7 recommendations with evidence of improved internal controls and governance, and reduced risk - only 2 recommendations remained outstanding at this point.



## 6 Recommendations and actions arising from Internal Audit Annual Plan 2023/24

6.1 Recommendations in reports are suggested changes to existing procedures or processes. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

### Ratings for Recommendations

**High** – Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.

**Medium** – Recommendations which will improve the efficiency and effectiveness of the existing controls.

**Low** – Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Recommendation	Rating	Agreed Management actions	Responsibility and timescale
<p>1 The Register of Interests for Board members should be uploaded to the IJB website and linked through the documented MPS.</p> <p>Management should conclude the review of the Public Engagement Statement and make this available through the IJB website, linked also through the documented MPS</p> <p>Management should ensure that financial information is appropriate and accessible both online and through the documented MPS.</p> <p>Management should ensure that the information available online is linked to the relevant class within the documented MPS.</p>	Medium	<p>1. Management will review the MPS and include additional links where they can be directly tracked to electronic documents, including the Register of Interests for Board members.</p> <p>2. Management will also review the minimum service requirement for provision of information on the Midlothian Health and Social Care website, coordinate the provision of information and ensure this is uploaded.</p>	<p>1. Integration Manager, Midlothian Health and Social Care Partnership – 31 May 2024</p> <p>2. Integration Manager, Midlothian Health and Social Care Partnership – 30 December 2024</p>
<p>2 Management should ensure that there is information included within the documented MPS and online to advise members of the public on how to submit freedom of information requests.</p>	Low	<p>Management will ensure that the Midlothian Health and Social Care website clearly outlines how members of the public should submit Freedom of Information requests</p>	<p>Integration Manager, Midlothian Health and Social Care Partnership – 31 May 2024</p>

Recommendation	Rating	Agreed Management actions	Responsibility and timescale
<p>3 Management should consider the Scottish Information Commissioners self-assessment modules and determine the most appropriate to complete, thereafter a schedule for the completion should be agreed.</p> <p>Where necessary, an action plan should be developed to address any gaps identified by the assessment.</p>	<p>Low</p>	<p>Management will assess current publication activity and practice using the Scottish Information Commissioners self-assessment checklist. Thereafter, any improvement opportunities will be identified and a plan for their implementation agreed.</p>	<p>Integration Manager, Midlothian Health and Social Care Partnership – 30 November 2024</p>

## 7 Public Sector Internal Audit Standards (PSIAS)

7.1 The 2023-24 self-assessment of practices against the professional standards PSIAS (2017) has indicated that Midlothian Council’s Internal Audit function ‘Fully Conforms’ with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, the Attribute Standards and the Performance Standards.

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 MIJB Chief Internal Auditor  
 30 May 2024

