

# Internal Audit Report

## Health and Social Care Partnership Financial Sustainability and Monitoring

9 April 2024

HSC2301

**Overall  
Assessment**

**Limited Assurance**

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

# Executive Summary

Overall Assessment

Limited Assurance







## Overall opinion and summary of findings

This review recognises that balancing increasing demands and rising costs with the requirement to make significant savings which impact health and social care service provision is complex. The review also recognises the significant work completed in the last year to develop a Medium-Term Financial Strategy (MTFS).

This review has identified the following opportunities to improve and strengthen the design and operating effectiveness of the key controls established to support the financial sustainability of the Health and Social Care Partnership, specifically costs relating to the Council:

- the impacts of demographic change and initiatives on budgets could be considered further
- stress testing and scenario planning could be used further to determine the impact on costs if budgetary assumptions are inaccurate
- a procedure manual for the creation and management of the MTFS should be developed
- work should be undertaken to limit the impact of data quality and delayed input of cost information within the Swift system.

## Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Financial Planning			Finding 1 – Impact of demographic change on budgets	Medium Priority
			Finding 2 – Testing of budgetary assumptions	Medium Priority
			Finding 3 – Procedure for creation and maintenance of the MTFS	Medium Priority
2. Accuracy of Budget Shortfall			Finding 4 – Accuracy of financial forecasts	Medium Priority
3. Oversight and Governance			See Finding 4	Medium Priority

[See Appendix 1 for Control Assessment and Assurance Definitions](#)

The draft MTFS and a one-year savings and recovery programme for 2024/25 was presented to the EIJB in [March 2024](#).

Following a review, the rating for the Council's Corporate Leadership Team risk on Financial and Budget Management was reduced from Critical to High in March 2024, reflecting approval of the MTFS and further actions to monitor delivery of the strategy. However, it is noted that the current rating is still outside the Council's risk appetite of Medium.

A further review of EIJB financial monitoring, reporting and oversight processes including progress with delivery of the MTFS, the savings and recovery programme, and general cost and budget monitoring is included in the 2024/25 EIJB Internal Audit Plan and the outcomes of this work will be referred to the Governance, Risk and Best Value Committee.

## Areas of good practice

- audited financial data was used to create the budgetary baseline for the 2023-24 financial plan
- there is regular reporting to governance forums (such as the EIJB, the Finance and Resources Committee, and the Change Board) on the progress of savings initiatives, as well as a budget working group.

# Background and scope

[The Edinburgh Health and Social Care Partnership](#) (HSCP) was established in April 2016 under the Public Bodies Joint Working Act 2014. The majority of the activities of the HSCP are commissioned, directed, and governed by the Edinburgh Integration Joint Board (EIJB). The HSCP comprises NHS Lothian, and the City of Edinburgh Council (the Council), who work together to deliver health and social care services across the city.

The total delegated budget for 2023/24 is £809.4m, with £514.4m from NHS Lothian and £295m from the Council. In April 2023, a [paper](#) was provided to the Finance and Resources Committee (FRC) which provided an update on the 2023/24 financial plan for the EIJB and stated an estimated deficit of £35.5m. In addition, in June 2023 a further [paper](#) was provided to the FRC which approved the recruitment of additional resource to lead the development of the Medium-Term Financial Strategy (MTFS).

At the EIJB on March 2023, the EIJB's Chief Finance Officer presented the EIJB's [2023/24 Financial Plan](#), which noted that demand for health and social care services is increasing, costs are rising, and there is a need to improve performance. The plan set out a budget shortfall of £47m which was split as £15.5m for NHS Lothian and £31.5m for the Council.

The Chief Finance Officer also provided the [Savings and Recovery Programme 2023-24](#) to the EIJB, which included initial savings proposals for reducing the budget gap from £47m to £36m.

In June 2023, an [update](#) was provided to the EIJB which set out the progress being made to develop the MTFS, which advised that initial modelling indicates that a near balance position can be achieved over a three-year period. The report also outlined additional savings proposals for 2023-24 with the aim of further reducing the budget gap to £14.4m. The paper advised that the MTFS offers an opportunity to redesign services over a three-year period in a way which maximises alignment with the strategic plan and improvement programme, and a potential path to balancing finances over the three-year period in a managed and controlled manner.

In October 2023, an [update](#) was provided to the FRC which stated that an in-year overspend of £14m was forecasted for the year 2023/24. The paper advised that no new commitments be taken on at this time, pending a further update to the November Committee meeting.

Following the November update, period 8 monitoring of the social care purchasing forecast showed growth was in excess of budget. Between period 6 and period 8 the forecast budget deficit had increased by £4m. The Chief Officer prepared a briefing paper highlighting this movement and setting out remedial actions to be implemented immediately. One of these actions was to request Internal Audit to perform an investigation into why the increase occurred and whether the Partnership could have been alerted to it sooner.

Following this, a further update on the development of the MTFS was provided to the EIJB in [December 2023](#) in which it was reported that there was a risk that financial balance over the 3-year period was not achievable without significant negative impact on outcomes for people and performance.

The draft MTFS which intends to address the projected financial shortfall over a 3-year period was presented to the EIJB in [March 2024](#). Officers advised the Committee that the MTFS will remain a draft and will be represented when the 2024 EIJB Strategic Plan is presented to the EIJB later in the year.

## Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to support the financial sustainability of the HSCP, specifically relating to the costs to the Council.

An investigation into the increase in purchasing growth between periods 6 and 8 was also included in the scope of this review, as requested by the Chief Officer. This included looking at the reasons for the increase and whether they could have been identified sooner.

## Risks and Business Plan Objectives

The review also considered assurance in relation to the following Corporate Leadership Team Risks:

- Regulatory and Legislative Compliance
- Workforce
- Financial and Budget Management
- Service Delivery
- Strategic Delivery.

Business Plan Objectives:

The Council has the capacity, skills, and resources to deliver our priorities efficiently, effectively and at lower cost.

## Limitations of Scope

This review considered the elements of the EIJB's Savings and Recovery Programme 2023-24 which affect costs to the Council, and not costs related to NHS Lothian.

## Reporting Date

Testing was undertaken between August 2023 and February 2024.

Our audit work concluded on 20 February 2024, and our findings and opinion are based on the conclusion of our work as at that date.

# Findings and Management Action Plan

## Finding 1 – Impact of demographic change and improvement initiatives on budgets

Finding  
Rating

Medium  
Priority

The purpose of the EIJB’s [Joint Strategic Needs Assessment](#) (JSNA) is to ensure that there is a robust understanding of current and future local populations, associated service needs and their related costs. Information gathered through the JSNA is intended to be used to inform and guide the commissioning and delivery of health, wellbeing, and social care services.

The financial impact of demographic growth was stated in the [EIJB’s 2023-24 Financial Plan](#) (provided to the EIJB Board in March 2023, though it is noted the paper states the date as March 2022) as being £10.1m for the Council. However, it is noted that this was not calculated using JSNA data. Instead, management advised that they used their own experience and judgement to determine the expected demographic changes and their financial impact. The Council’s Finance team also advised they are kept informed of changing demand and costs for services through regular meetings with service managers and review of service demand and costs on the electronic system Swift. However, as noted in [Finding 4](#), there can be delays of between 6 months and 2 years in updating the Swift system with care plan financial information.

Using the JSNA to understand future demographic changes, and their effects on individual services, would enable a more accurate estimate to be made of changing budgetary pressures over the short, medium, and longer term.

This could then be used to improve the accuracy of financial forecasts, and therefore increase the effectiveness of decision making by officers and the EIJB.

Following recommendations made by the Care Inspectorate and the Edinburgh Assistance Programme for managing delayed discharges, performance in this area was improved which resulted in significantly more care at home packages being put in place. Management estimated the financial impact of the required performance improvement, however this estimate proved to be too low. It is important that the financial viability of such initiatives is fully assessed prior to commencement and built into forecasts to ensure they represent an accurate and complete picture of finances.

### Risks

- **Strategic Delivery** –members may be unaware of potential changes to costs, which would affect delivery of services
- **Financial and Budget Management** – if future costs are not fully known there is an increased risk that budgets are inaccurate, and savings plans are not sufficient to achieve financial sustainability.

## Recommendations and Management Action Plan: Impact of demographic change and Improvement initiatives on budgets

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officer	Timeframe
1.1	The JSNA should be used to determine future changes in service demand for each individual service	We would partially agree with this recommendation. We recognise the need to continue to develop and refine the methodology used to determine the cost of purchased services	<b>Owner:</b> Chief Officer <b>Lead:</b> Chief Finance Officer	31/07/2024

	<p>area, with these changes then being fully costed and reflected in EIJB budgets.</p> <p>This information should then be reported to the EIJB Board.</p>	<p>and note that further work is necessary to ensure accurate budget forecasting wherever possible. However, population changes (as captured in the JSNA) are only one element of the drivers of purchasing costs and we should be cognisant of complexity of need and trends associated with adult protection, multiple complex needs, mental health, and addiction as well as the impact of an ageing population. Other factors (which have more impact on the final costs) are the hourly rates paid, the ability of the market to flex capacity, the rate at which assessments are completed etc.</p> <p>The projections reflected in the 2024/25-26/27 MTFS have been calculated on a service-by-service basis and we will continue to improve the methodology which underpins this calculation. We also accept that there is a requirement to forecast costs associated with medium- and long-term statutory requirements and will undertake this work with immediate effect.</p>		
1.2	<p>A correction should be made to <a href="#">EIJB's 2023-24 Financial Plan</a> paper (provided to the EIJB Board in March 2023). Currently the paper states the date as being March 2022 instead of March 2023. The paper's stated date should be changed on the public website.</p>	<p>Agreed - this has now been actioned.</p>	<p><b>Owner:</b> Chief Officer <b>Lead:</b> Chief Finance Officer</p>	30/04/2024
1.3	<p>The financial costs of any proposed initiatives to improve performance and service delivery should be assessed prior to approval and commencement. If approved, estimated costs should be built into the overall financial forecasts.</p>	<p>We would agree with this however it is important to highlight the practical challenges of implementing change. Social care activity and the impact on the costs of purchased services are subject to a complex set of interrelated factors. Efforts to improve performance and reduce delays for services are constant factors in the work of social care teams and forecasting the financial implications is not straightforward. Additionally, these efforts are further hampered by the system issues outlined elsewhere in this report. Nevertheless, we</p>	<p><b>Owner:</b> Chief Officer <b>Lead:</b> Chief Finance Officer</p>	31/07/2024

		<p>recognise the need to closely monitor the position and improve how we link performance and financial data.</p> <p>Governance and scrutiny arrangements for performance, finance and savings delivery have been reviewed with new meeting structure being introduced in April 2024.</p> <p>Initial financial forecast for 2024/25 will be available in July 2024.</p>		
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## Finding 2 – Testing of budgetary assumptions

Finding Rating	Medium Priority
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Stress testing and scenario planning can be used to determine the impact on costs if budgetary assumptions are inaccurate. These processes provide officers and committees with a better understanding of potential changes to budgets and their financial impact and helps committees to have a fuller understanding of the robustness of budgetary information and expected costs.

Some scenario planning information was provided to the March 2023 EIJB Board meeting in the [EIJB's 2023-24 Financial Plan](#) paper, namely the financial effect of pay costs being higher than expected. However, at the time of audit fieldwork, a comprehensive analysis setting out the likelihood of individual budgetary assumptions being correct, and potential changes to costs if they are not, had not been provided to the EIJB.

Examples of areas which would benefit from stress testing and scenario planning are cost changes due to demographic change (see [Finding 1](#)), the current cost savings due to vacancies, and any potential additional costs should Scottish Government funding be reduced.

Provision of this information should aid the development of savings plans which support achievement of financial sustainability.

It is noted that this has been factored into the draft 2024/25-2026/27 Medium Term Financial Strategy which was approved by the EIJB in March 2024.

### Risks

- **Strategic Delivery** – committee members may be unaware of potential changes to costs, which would affect delivery of services
- **Financial and Budget Management** – if effective stress testing is not performed there is an increased risk that budgets are inaccurate, and savings plans are not effective in achieving financial sustainability.

## Recommendations and Management Action Plan: Testing of budgetary assumptions

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officer	Timeframe
2.1	<p>All budgetary assumptions should be reviewed using stress testing and scenario planning, and classified according to their likelihood of being correct, perhaps using a RAG status.</p> <p>The financial effect of any potential variances in assumptions should then be calculated.</p> <p>This analysis of the stress testing of the budgetary assumptions should be provided to the relevant governance forum annually when the budget is provided.</p>	<p>Accepted. This has been factored into the 2024/25-26/27 Medium Term Financial Strategy (MTFS).</p>	<p><b>Owner:</b> Chief Officer <b>Lead:</b> Chief Finance Officer</p>	30/04/2024

## Finding 3 – Procedure for creation and maintenance of the MTFS

Finding Rating	Medium Priority
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Policies and procedures are the foundation of an effective internal control environment. Procedures can be used to capture and maintain best practice, and to provide consistency, especially where there may be a change in officers. It was noted that there is currently no procedure in place for the creation and management of the Council-related elements of the Medium-Term Financial Strategy (MTFS).

Manuals are useful as they provide management direction, guidance on timelines, roles and responsibilities, data requirements and considerations, approval arrangements and ongoing review, monitoring and reporting arrangements.

Such an approach would support development of timely and accurate budgets and support effective scrutiny of both the MTFS and its delivery.

### Risks

- **Strategic Delivery** – the MTFS could be incomplete or inaccurate leading to a reduced understanding of the required service delivery and resultant costs
- **Financial and Budget Management** – without a consistent, best practice, approach to the creation and management of the MTFS there is an increased risk that budgets are inaccurately calculated, leading to a reduced likelihood that financial sustainability is achieved.

## Recommendations and Management Action Plan: Procedure for creation and maintenance of the MTFS

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
3.1	<p>A procedure should be created which sets out the end-to-end process for the creation and management of the Council-related elements of the MTFS, including:</p> <ul style="list-style-type: none"> <li>• the annual timeline for the process</li> <li>• allocation of key responsibilities</li> <li>• where to obtain and validate baseline data</li> <li>• how to determine and stress test budgetary assumptions, for example the financial impacts of demographic change</li> <li>• review and approval arrangements</li> <li>• ongoing monitoring and reporting arrangements for effective oversight and governance.</li> </ul> <p>The procedure should be approved by senior management and reviewed annually to ensure that it continues to be aligned to current operations and best practice.</p>	<p>Agreed</p> <p>In keeping with MTFS workstreams the Chief Officer and Chief Finance Officer have established additional governance oversight arrangements seeking assurance on financial improvement plans aligned to budget reporting periods. These arrangements will assist more routine budget forecasting and mechanisms for corrective action.</p>	<p><b>Owner:</b> Chief Officer</p> <p><b>Leads:</b> Principal Accountant Chief Finance Officer Performance and Evaluation Manager</p>	31/07/2024

## Finding 4 - Accuracy of Financial Forecasts

Finding Rating	Medium Priority
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The Council's Finance team produces EIJB financial monthly monitoring reports. In order to produce these reports, information on committed expenditure, such as care plans, is taken from the Swift system. For these reports to be accurate and assist meaningfully with decision making, the information within Swift needs to be as up to date as possible.

However, it was noted that this is not always the case and there can sometimes be delays of between 6 months and 2 years in updating the Swift system with care plan financial information. This could mean that significant expenditure has been committed that the Finance team are not aware of, and therefore isn't built into any budgetary forecasts.

We acknowledge that management are aware of data quality and accuracy issues with the information held in the Swift system, and management have advised that there is an exercise being performed to identify and address the root cause of these issues.

It is also recognised that an internal review has assessed the Swift system to not be fit for purpose, and a project is currently underway to replace the system. It is important that the design for the replacement system includes adequate provisions for data input quality and accuracy to prevent continued issues.





### Risks

- **Strategic Delivery** – inaccuracies in financial monitoring may impact delivery of services
- **Financial and Budget Management** – incomplete information on committed expenditure may lead to inappropriate financial decisions being made.

## Recommendations and Management Action Plan: Accuracy of Financial Forecasts

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
4.1	Work to identify and address the factors contributing to the delays in updating financial information on the Swift system should be completed as a priority, in order to improve the timeliness and accuracy of budgetary reporting.	Agreed. This Chief Officer is leading a cross departmental piece of work to address this following confirmation that data inputting and financial approval arrangements require significant improvement It should be noted however that, despite implementing changes, the fundamental system issues will remain until the replacement case management system is in place.	<b>Owner:</b> Chief Officer <b>Leads:</b> Locality Managers Principal Accountant Customer Manager, Transactions - Assessment and Finance	30/09/2024

# Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

Finding Priority Ratings	
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
<b>Low Priority</b>	An issue that results in a small impact to the achievement of objectives in the area audited.
<b>Medium Priority</b>	An issue that results in a moderate impact to the achievement of objectives in the area audited.
<b>High Priority</b>	An issue that results in a severe impact to the achievement of objectives in the area audited.
<b>Critical Priority</b>	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

## Appendix 2 – Audit Areas and Control Objectives

Audit Area	Control Objectives
Financial Planning	<p>Council inputs for the EIJB Medium Term Financial Plan are accurate and based on appropriate assumptions and modelling.</p> <p>Investigate the assumptions used in the preparation of the budget.</p>
Accuracy of Budget Shortfall	<p>The forecasted budget shortfall for delivery of Council led health and social care services is accurately accounted for within the Council's financial plan, and with strategies to bridge the deficit in the short term developed together with consideration of longer-term solutions.</p> <p>Investigate the reasons for the £4million increase in forecast overspend between periods 6 and 8.</p>
Oversight and Governance	<p>Effective processes have been established to monitor delivery of Council led projects within the Savings and Recovery Programme including appropriate escalation routes for corrective actions.</p> <p>Investigate the timeliness and accuracy of financial monitoring reports.</p>