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Agenda Item: 8

## **Performance and Audit Committee.**

**Date of Meeting: 18 June 2025.**

**Subject: Internal Audit: Financial Planning,  
Monitoring and Reporting.**

### **1. Purpose**

1.1. To present the Financial Planning, Monitoring and Reporting Internal Audit Report for members' scrutiny.

### **2. Recommendations**

The Performance and Audit Committee is invited to scrutinise:

2.1. The findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing the arrangements for setting and monitoring the Integration Joint Board's budget, including variance analysis and reporting, in order to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

3.1. Section 95 of the Local Government (Scotland) Act 1973 requires all Integration Joint Boards (IJBs) in Scotland to have adequate systems and controls in place to ensure the "proper administration of their financial affairs".

3.2. The IJB directs the Council and the NHS on how resources will be spent in line with the approved Strategic Plan, and allocates resources back to the Council, NHS or any other commissioned body in accordance with its directions.

3.3. The objective of this audit was to review the arrangements for setting and monitoring of the IJB budget, including variance analysis and variance reporting.

### **4. Audit Findings**

4.1. The audit provides limited assurance over the arrangements for setting and monitoring of the IJB budget.

4.2. The internal audit report, attached as Appendix 1 to this report, includes five medium priority recommendations regarding financial recovery plans, action plans, tracking external audit actions, business continuity, procedure notes and updating the Integration Scheme. There are no high priority recommendations made as a result of this audit.

## 5. Contribution to quality

Please indicate which of the Orkney Community Plan 2025 to 2030 values are supported in this report adding Yes or No to the relevant area(s):

<b>Resilience:</b> To support and promote our strong communities.	No.
<b>Enterprise:</b> To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	No.
<b>Equality:</b> To encourage services to provide equal opportunities for everyone.	No.
<b>Fairness:</b> To make sure socio-economic and social factors are balanced.	No.
<b>Innovation:</b> To overcome issues more effectively through partnership working.	No.
<b>Leadership:</b> To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	No.
<b>Sustainability:</b> To make sure economic and environmental factors are balanced.	No.

## 6. Resource and financial implications

6.1. There are no resource or financial implications associated directly with this report.

## 7. Risk, equality and climate change implications

7.1. There are no risk, equality or climate change implications associated directly with this report.

## 8. Direction required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## 9. Escalation required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## 10. Author and contact information

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## 11. Supporting documents

11.1. Appendix 1: Internal Audit Report – Financial Planning, Monitoring and Reporting.



## Internal Audit

### Audit Report

### Financial Planning, Monitoring and Reporting

Draft issue date: 1 May 2025

Final issue date: 26 May 2025

Distribution list:	IJB Chief Officer
	Head of Finance
	Service Manager- Accounting
	Team Manager- Accounting

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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

### Limited

There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

The purpose of this audit was to review the arrangements for setting and monitoring of the Orkney Integration Joint Board (IJB) budget, including variance analysis and variance reporting.

The Orkney IJB faces significant financial challenges with rising demand for health and social care services, the requirement for achieving savings targets and workforce recruitment and retention problems being just some of the factors contributing to this. The limited opinion provided reflects the financial position of the Orkney IJB however it is not alone in facing such challenges. The IJB's financial position is reflected in the national picture set out in a recent Chief Officers Update presented to the Cabinet Minister for Health and Social Care with an estimated financial gap forecast for all IJBs in Scotland of £562.4m for 2025/26 to stand still. The average financial gap as a percentage of budget sits at 5.35% with gaps ranging from 1.97% to 11.39%. The IJB in Orkney has anticipated a gap of 8.75%.

In a recent report on Adult Social Care Expenditure, the rate spent per 1,000 population for each Local Authority Area in 2022/23 and 2023/24 was set out as a benchmarking exercise to encourage local conversation. When compared to other island boards to provide additional context to the Orkney IJB's comparative financial position, the differences are as follows:

	Rate per 1,000 Population 2022/23	Rate per 1,000 Population - Over 65s 2022/23	Rate per 1,000 Population 2023/24	Rate per 1,000 Population - Over 65s 2023/24
Orkney	£1,140,682	£4,492,481	£1,267,545	£4,992,123
Shetland	£1,746,522	£7,898,152	£1,986,652	£8,984,074
Western Isles	£1,352,094	£4,995,033	£1,369,766	£5,060,318
Scottish Average	£801,642	£3,942,358	£851,271	£4,186,424

A challenge for the Board has been the high turnover of Chief Finance Officers over the last few years. The post is currently vacant although essential duties are being carried out by the Council's Team Manager (Accounting) in the interim as a temporary measure. This arrangement began in March 2025. Despite the short time in post, the Annual Budget 2025/26 was presented by the Team Manager (Accounting) to the IJB on 30 April 2025.

Due to the Chief Finance Officer vacancy, a high-level audit was conducted focusing on actions taken in response to recommendations made by both External Audit and the Accounts Commission as well as ensuring continuity and improved financial performance going forward. The recommendations referred to will address issues identified within the audit around the timely setting of realistic budgets as well as achievable recovery plans and savings targets based on updated medium term financial plans.

Positive findings from the audit include:

- Substantial level of scrutiny provided over annual budgets, budget monitoring reports and savings plans by members of the IJB.
- A good level of detail provided within financial reporting to the Board.
- Commitment to improving outcomes for people through the delivery of the Strategic Plan with 73% of priority milestones being complete or on schedule for completion as at 19 March 2025.

The report includes five recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via the Ideagen Risk Management system.

Total	High	Medium	Low
5	0	5	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

## Introduction

Section 95 of the Local Government (Scotland) Act 1973 requires all Integration Joint Boards in Scotland to have adequate systems and controls in place to ensure the 'proper administration of their financial affairs'.

The Orkney IJB directs the Council and the Health Board on how resources will be spent in line with the approved Strategic Plan, and allocates resources back to the Council, Health Board or any other commissioned body in accordance with its directions. The IJB Financial Regulations detail the responsibilities, policies and procedures in dealing with the financial affairs of the IJB.

The funding available to the Board is dependent on the funding available to Orkney Islands Council, NHS Orkney and their corporate priorities. As part of the annual budget setting process, an integrated budget is presented to the IJB for consideration. Following agreement of the Strategic Plan and agreement of the annual baseline budget, the Chief Officer will provide direction to the Partners regarding the operational delivery of the plan.

The IJB Financial Regulations require that the IJB ensures appropriate arrangements to supporting good financial management and planning including the requirement to report regularly and timeously on all budgetary control matters, comparing projected outturn with the approved financial plan.

This review was conducted in conformance with the Global Internal Audit Standards in the UK Public Sector.

## Audit Scope

This audit reviewed controls in place to ensure that:

- Budgets for the financial year are set timeously and are approved by the commencement of the financial year.
- Performance against budgets are reported frequently and accurately, with sufficient monitoring and scrutiny.
- The set aside budget for acute care has been delegated to the IJB in accordance with the expectation of legislation.
- Savings for the 2024/25 and 2025/26 financial years to maintain balanced budgets are identified in sufficient detail.
- Recovery plans, if necessary, are defined in sufficient detail.

# Audit Findings

## 1.0 Financial Position of the IJB

- 1.1 The IJB budget for 2024/25 was approved in June 2024 and revenue expenditure reports have been presented to the Board in September 2024, November 2024 and February 2025 to provide an update on financial matters throughout the year.
- 1.2 The draft outturn financial position of the Orkney Health and Social Care Partnership as presented to the IJB on 30 April 2025 is an overspend position of £4.215 million, comprising the following:
  - An overspend of £3.420 million in relation to Orkney Islands Council commissioned services.
  - An overspend of £0.795 million by NHS Orkney commissioned services.
- 1.3 As reported within the Revenue Expenditure Monitoring report in February 2025, as at 31 December 2024, there was an overspend of £1,328k on Set Aside Services but this was in line with the financial plan agreed with the Scottish Government.
- 1.4 A good level of detail is provided in the Revenue Expenditure Monitoring reports to explain the causes of overspending.
- 1.5 The highlighted problem areas causing the majority of overspend include agency and locum staff costs due to recruitment issues.
- 1.6 In addition to outturn overspend positions, budgets for 2023/24 and 2024/25 have required in year variances to address the actual cost of services delivered which indicate that the budgets set are not achievable against the strategic delivery plan.
- 1.7 Previous year overspend in 2023/24 resulted in additional payments being made by partners and the need for a recovery plan spanning a three-year period to bring the budget back to a break-even point.
- 1.8 In 2023/24, the IJB achieved 31% of required savings.
- 1.9 The achievement of savings in 2024/25 will be presented to the IJB in Q1 2025/26. Many elements within the recovery plan for OIC delegated services are dependent on possible events occurring such as successful recruitment to permanent posts to cover vacancies and therefore there is a degree of uncertainty around whether these savings are achievable from the outset. Although not yet quantified in terms of the savings represented, some of the recruitment efforts have been successful within 2024/25 however the positive impact of this may not be seen financially until 2025/26.
- 1.10 Even if all of the savings detailed within the plan have been achieved, they are not enough to address the budget overspend position.
- 1.11 There was no detailed recovery plan for 2024/25 presented to the Board for savings related to NHS delegated services however this was due to the overspend being in line with the plan agreed with the Scottish Government. The majority of the savings identified for the NHS delegated services have been achieved as set out in the recovery plan presented in February 2024.



- 1.12 The Annual Budget for 2025/26 was presented to the IJB on 30 April 2025 with already a predicted overspend position of between £3.2 and £3.4 million. A detailed recovery plan for 2025/26 is yet to be produced and it was recommended that a robust and detailed Financial Recovery Plan, to provide assurance that there are plans to reduce spending, is developed and presented to the Board for approval. This will be presented at the end of Q1 along with the outturn position for 2024/25.
- 1.13 Reserves held by the IJB are all earmarked and therefore cannot be used to offset overspend which strays from the IJB Reserves Policy which recommends a prudential level of 2% contingency reserve. This reduces the IJB's financial flexibility and increases the risk to financial sustainability.
- 1.14 Annual budgets not being set in time for the start of the financial year, continued overspend positions, depletion of contingency reserves and required savings not being achieved confirm a precarious financial position for the Orkney IJB however it is important to reinforce the point that in the national context, this is the case for the majority of IJBs across the country as set out in the executive summary.
- 1.15 Specific recommendations to address all of the issues identified within this section of the report are not being made as they will be addressed through recommendations 2, 3 and 5.
- 1.16 The recommendation made within this section of the report is with regard to timing of the production of detailed recovery plans as these are not explicitly addressed through the other recommendations.
- 1.17 We recommend that future detailed financial recovery plans are linked to the setting of annual budgets and include details of plans to reduce spending for both OIC and NHS commissioned services as appropriate with achievement against the plans reported to the IJB Performance and Audit Committee on a quarterly basis.

## **Recommendation 1**

### **2.0 Accounts Commission Report and Finance Bulletin 2023-24.**

- 2.1 In July 2024, Audit Scotland prepared a report for the Accounts Commission on finance and performance issues affecting IJBs in Scotland. This reviewed financial performance in 2022/23, the outlook for 2023/24 and beyond. In March 2025, this was followed by the Finance Bulletin for 2023-24.
- 2.2 Significant key findings related to finance across both reports included weakening financial health of IJBs, indications of more challenging times ahead, unsustainable approaches to balancing budgets, decreasing levels of reserves held by IJBs, reliance on non-recurring sources of income and Medium Term Financial Plans that require updating to reflect all known and foreseeable costs and allow informed decision-making on the delivery of sustainable service provision and reform in the future.
- 2.3 The following five recommendations were made from the Accounts Commission report:
 

*'Integration Joint Boards should:*

  - *Ensure that their Medium-Term Financial Plans are up to date and reflect all current known and foreseeable costs to reflect short and longer-term financial sustainability challenges.*

- *Ensure that the annual budgets and proposed savings are achievable and sustainable. The budget process should involve collaboration and clear conversations with IJB partners, workforce, people who use services and other stakeholders around the difficult choices required to achieve financial sustainability.*
- *Work collaboratively with other IJBs and partners to systematically share learning to identify and develop:*
  - Service redesign focused on early intervention and prevention.
  - Approaches focused on improving the recruitment and retention of the workforce.
- *Work collaboratively with other IJBs and partners to understand what data is available and how it can be developed and used to fully understand and improve outcomes for those using IJB commissioned services. This should include a consideration of gaps in data. It should also include consideration of measures to understand the impact on preventative approaches.*
- *Evaluate whether the local commissioning of care and support services, and the contracting of these services, adheres to the ethical commissioning and procurement principles, improving outcomes for people.'*

- 2.4 In response to the report from the Accounts Commission, two development sessions were held by the IJB to address the example questions suggested, designed to support the consideration of the IJB's finance and performance position.
- 2.5 The questions address key issues including around financial planning such as updating the medium-term financial plan, reliance on non-recurring sources of income, reserve levels and reviewing savings targets against what is achievable on a recurring basis.
- 2.6 The development sessions were also to review and assess progress in relation to the recommendations.
- 2.7 We recommend that an action plan is developed to build on the work undertaken at the development sessions. This action plan should detail how the recommendations and areas for improvement identified will be achieved with a corresponding responsible officer and completion dates. The action plan should be presented to the IJB Performance and Audit Committee for scrutiny and to report on progress.

## **Recommendation 2**

### **3.0 External Audit Recommendations**

- 3.1 The annual external audit report based on the annual accounts for 2023/24 was presented to the IJB Performance and Audit Committee in September 2024. Several recommendations made by External Audit relate to financial planning.
- 3.2 Two of eight prior year audit recommendations made had been completed with six remaining as outstanding. One new high priority recommendation was made bringing the total outstanding to seven recommendations.
- 3.3 The recommendations outstanding include:
- Longer term forecasts/plans to be developed (Recommended in December 2023).

- Ensuring full transparency of IJB governing documents on the Council's website (Recommended in December 2023).
- Rolling forward the Medium Term Financial Plan (MTFP) on an annual basis (Recommended in December 2023).
- Status of progress of audit recommendations and action points should be regularly reported to the Board (Recommended in 2023).
- Carrying out root cause analysis to investigate and develop action plans against deteriorating performance (Made in December 2023).
- Consider developing savings options over the short to medium term to bridge identified savings gaps (Made in September 2022).
- Implementation of a recovery plan to ensure achievement of short and medium term financial balance and timely approval of the budget ahead of the start of the relevant financial year (Current year recommendation).

3.4 The two completed recommendations related to regular performance reporting and updating all policy and procedure documents.

3.5 The outstanding recommendations and associated actions are not currently recorded, tracked or reported on other than through the annual external audit of the annual accounts.

3.6 We recommend that the external audit actions are uploaded to Pentana so they can be tracked and reported on and included within the six-monthly reports on audit actions presented by the Chief Internal Auditor.

### **Recommendation 3**

#### **4.0 Business Continuity**

4.1 A key message within the Financial Bulletin issued by the Accounts Commission for 2023-24 is as follows: *'The continued high turnover of chief officers and chief finance officers across the country adds to the risks around effective strategic planning and decision-making.'*

4.2 Across the period covered by the Medium Term Financial Plan for 2022-25, there have been three Chief Finance Officers for the IJB and multiple attempts to recruit have not been successful. Currently the post is vacant with some cover being provided by the Team Manager (Accounting). Recruitment for the post is going to be reattempted imminently.

4.3 There is no business continuity plan in place for the IJB or written procedures for the Chief Finance Officer.

4.4 In order to ensure there are clear business continuity arrangements in place for the absence of key roles, a business continuity plan should be developed for the IJB and written procedures should be created for the Chief Finance Officer role to support those new to the post or for those covering the post in the event of a vacancy.

### **Recommendation 4**

4.5 The budget setting process procedure, including expected timescales, should be set out within the Integration Scheme which is due for review in 2026, along with other

recommendations referred to within the report that have implications for procedural arrangements.

## **Recommendation 5**

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 We recommend that future detailed financial recovery plans are linked to the setting of annual budgets and include details of plans to reduce spending for both OIC and NHS commissioned services as appropriate.	Medium	A detailed Recovery Plan will be presented to the Integration Joint Board in September 2025.  Details of Recovery Plans will be included in the budget setting procedure to be developed.	Chief Finance Officer.	30 September 2025.
2 We recommend that an action plan is developed to build on the work undertaken at the development sessions. This action plan should detail how the recommendations and areas for improvement identified will be achieved with a corresponding responsible officer and completion dates. The action plan should be presented to the IJB Performance and Audit Committee for scrutiny and to report on progress.	Medium	An action plan will be developed and presented to the Performance and Audit Committee in September 2025.	Chief Officer.	30 September 2025.
3 We recommend that the external audit actions are uploaded to Pentana so they can be tracked and reported on and included within the six-monthly reports on audit actions presented by the Chief Internal Auditor.	Medium	External Audit Actions are now uploaded to the Pentana system.	Chief Officer.	31 May 2025.

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
4 In order to ensure there are clear business continuity arrangements in place for the absence of key roles, a business continuity plan should be developed for the IJB and written procedures should be created for the Chief Finance Officer role to support those new to the post or for those covering the post in the event of a vacancy.	Medium	A Business Continuity Plan will be developed.  Procedures will be developed for each member of the Senior Management Team.	Chief Officer.	30 September 2025.
5 The budget setting process procedure, including expected timescales, should be set out within the Integration Scheme which is due for review in 2026 along with other recommendations referred to within the report that have implications for procedural arrangements.	Medium	The budget setting procedure will be included when NHSO and OIC review the Orkney Integration Scheme.	Chief Executive, NHSO.  Chief Executive, Orkney Islands Council.	31 May 2026.

## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.