

North Lanarkshire Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the North Lanarkshire Integration Joint Board and the Accounts Commission

12 September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Financial management

- 2 The financial reporting by each partner throughout the year was not representative of the final outturn position. The financial monitoring should be improved for 2017/18 to ensure each partner provides reliable financial projections.
- 3 NLIJB achieved a surplus of £7.4 million in 2016/17. This is a strong position for the first year of operation and will assist NLIJB in managing financial pressures in future years. Some of these reserves have been earmarked for use in 2017/18.

Financial sustainability

- 4 NLIJB should develop longer term financial planning, based on demand and resource projections.

Governance and transparency

- 5 NLIJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board. Risk management arrangements have been finalised and are now being implemented with regular reporting to committee.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of North Lanarkshire Integration Joint Board, hereby referred to as the 'NLIJB'. The report is divided into sections which reflect our public sector audit model.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Finance and Audit Sub Committee. It comprises an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of NLIJB's governance arrangements
- obtaining service auditor assurances from the auditors of NHS Lanarkshire (NHSL) and North Lanarkshire Council (NLC)
- an audit of NLIJB's 2016/17 annual report and accounts.

4. NLIJB is responsible for preparing an annual report and accounts that show a true and fair view and for establishing effective arrangements for governance, which enable them to successfully deliver their objectives.

5. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance.

6. These responsibilities include giving independent opinions on the financial statements, the remuneration report, the management commentary and the annual governance statement. We also review and report on the arrangements within NLIJB to manage its performance, and use of resources. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#) and supplementary guidance.

8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.

9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Board and the Accounts Commission and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Unqualified audit opinions

13. The annual accounts for the year ended 31 March 2017 were approved by the Board on 26 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- unqualified opinions on the remuneration, management commentary and the annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 22 June 2017, however this was later than the agreed timetable (23 May 2017) within the Annual Audit Plan, which we now recognise was ambitious. CIPFA provided guidance on the preparation of the IJB financial statement on 12th April 2017, 24th April 2017 and 9th May 2017, therefore this contributed to the short delay. Supporting evidence for the working papers was received on the agreed date of 23 May 2017 however a full set of unaudited accounts was not received until 22 June 2017. This was within the statutory timescales (30 June 2017).

16. Information on year-end balances was provided by NLIJB to NHSL by the pre-agreed timetable of 17 May 2017 for NHS consolidation purposes.

17. Each partner had in place their own organisational year-end assurance processes. Assurances over the hosts' relevant governance arrangements were also to be provided by each host, as part of the NLIJB accounts preparation process. The cross exchange of host assurances was as follows:

Exchange of Assurance	Date
From NHSL to NLIJB	7 June 2017
From NLIJB to NHSL	11 June 2017
From NLIJB to NLC	20 July 2017
From NLC to NLIJB	21 July 2017

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

18. The working papers provided were of a good standard and finance staff provided support to the audit team to support the delivery of the audit.

Risks of material misstatement

19. [Appendix 2 \(page 23\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively. The assessment of materiality was recalculated on receipt of the unaudited financial statements and is summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£5.5 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£2.7 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£55,000

Evaluation of misstatements

22. There were no misstatements which had an impact on the unaudited annual report and accounts.

Significant findings

23. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. These are summarised in

[Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 21\)](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

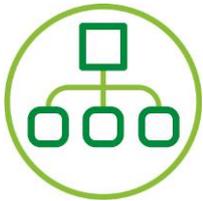
Issue	Resolution
<p>1. Hospital Acute Services (Set Aside)</p> <p>A notional figure for the 'set aside' for hospital acute services under the control of NLIJB has been agreed with NHSL and included in the NHSL and NLIJB 2016/17 annual report and accounts. This is based on 2014/15 activities and the levels have been up-rated to reflect the 2016/17 position. The set aside sum recorded in the 2016/17 annual report and accounts does therefore not reflect actual hospital use.</p>	<p>This is a transitional arrangement for 2016/17 that was agreed by the Scottish Government. Therefore this disclosure in the 2016/17 accounts has been accepted.</p> <p>Action Plan (Appendix 1, point 1)</p>

Other Findings

24. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

The financial reporting throughout the year by each partner was not representative of the final outturn position. The financial monitoring should be improved for 2017/18 to ensure each partner provides reliable financial projections.

NLIJB achieved a surplus of £7.4 million in 2016/17. This is a strong position for the first year of operation and will assist NLIJB in achieving financial balance in future years.

Financial management

25. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

26. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Chief Financial Officer has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within NLIJB
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

27. NLIJB does not have any assets, nor does it directly incur expenditure or employ staff. All funding and expenditure is incurred by partner bodies and processed in their accounting records. The Chief Financial Officer was appointed on 2 June 2016 and is responsible for ensuring that appropriate financial services are available to NLIJB and the Chief Officer. The Chief Financial Officer is also responsible for the South Lanarkshire IJB.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

28. Four budget monitoring reports were reported to committee during 2016/17 ([Exhibit 4](#)). These reports didn't identify the extent of year-end underspend that was identified in the audited financial statements (£7.4 million).

29. In respect of hosted services, in line with the Scottish Government Integrated Resource Advisory Group Finance Guidance for Health Boards and Local Authorities, section 4.3.1.10 advises that the responsibility for managing overspends remains with the overspending Integration Authority. The in-year financial monitoring reports therefore included the total hosted services budget which the NLIJB was responsible for leading on, in line with the Integration Scheme. This approach was also adopted by the South Lanarkshire IJB. In March 2017, a report was presented to both the NLIJB and the South Lanarkshire IJB which set out the financial position for all hosted services. This report also detailed the amount of the budget which each IJB was responsible for.

30. The £7.4 million underspend was not reported earlier in the year due in part to the timing of the in-year notification of the Scottish Government funding and the ability to put in place the service once the funding has been confirmed. This is primarily an issue on the health side as additional funding is confirmed on a monthly basis by the Scottish Government.

31. Additional challenges are faced as the forecasting requires judgement to be made on the financial implications of savings initiatives, in-year demographic growth and the outcome of agreed management actions to address overspends.

Exhibit 4

Financial Monitoring reports showing projected outturn for over/underspends

	NHSL period end position £m	NLC period end position £m	NLC Year end forecast £m
Jun-16	0.2	0.1	0.03
Sept-16	(0.5)	(0.5)	0.3
Nov-16	(0.7)	0.1	(1.3)
Jan-17	(1.2)	(0.4)	(0.5)
A/c as at Mar-17	-	-	(7.4)

Source: Financial Monitoring Reports taken to IJB

32. The Council provides year end forecasts, however within health it is not normal practice to do so, as a result the period end variance for health is used as an indication of the projected year end outturn but is not included within the year end forecast per [Exhibit 4](#). The forecasting within both the health and the Council is being reviewed as part of the improvements to the financial monitoring process.

33. A subsequent report was taken to the Board meeting on 18 July 2017, to explain the difference between the reported position at the end of January 2017 and the eventual outturn. This has been identified by the Chief Financial Officer as an area that requires improvement. NHSL currently do not report financial projections to the year-end. Each partner has been asked to ensure financial projections to the year end are provided and financial monitoring is improved.

34. An original budget for the IJB was set on 10 May 2016. With an initial funding budget of £366 million (NHS) and £158 million (local government), a total of £524 million. In January 2017 the allocated funding was revised, by both partners, to £535m and then a further revision was made at the year end to £555m (reflecting grant income for housing and criminal justice services).

Financial performance in 2016/17

35. The outturn is identified in [Exhibit 4](#). The underspend of £7.4 million has been retained by NLIJB with the reserves being apportioned between earmarked and contingency funds.

Exhibit 5

Budget Summary

IJB budget objective summary	Funding £m	Expenditure £m	Variance £m
NHS Lanarkshire (NHSL)	377	328	(48.2)
North Lanarkshire Council (NLC)	178	219	40.8
Total Funding / Expenditure	555	547	7.4
Comprised of:			
Earmarked Reserves – NHSL	-	-	2.5
Earmarked Reserves – NLC	-	-	0.7
Surplus (from NHSL to be retained by NLIJB)	-	-	2.7
Surplus (from NLC to be retained by NL IJB)	-	-	1.5

Source: Final Outturn report

36. The large variance between NHSL and NLC funding and expenditure represents resource transfer and other transactions, such as delayed discharge funding, integrated care funding and social care funding, that occur between NHSL and NLC. These transactions are not reflected within the NLIJB annual report and accounts as this would result in double counting.

Internal controls

37. NLIJB does not have any financial systems of its own, instead it relies upon the financial systems of the host bodies to record all transactions. The key financial systems which NLIJB relies upon include general ledger, trade payables, trade receivables and payroll.

38. As part of our audit approach we obtained assurances from the external auditor of NHS Lanarkshire and North Lanarkshire Council (in accordance with ISA 402) and confirmed there were no weaknesses in the systems of internal control.

Part 3

Financial sustainability



Main judgements

NLIJB should develop longer term financial planning, based on demand and resource projections.

The work-force related plan updates are underway and will be reported to the IJB upon completion.

Financial planning

39. NLIJB allocates the resources it receives from the health board and council in line with the Strategic Plan. Due diligence was undertaken by the NLIJB Internal Audit function to consider the sufficiency of the 2016/17 budget and no issues were identified.

40. The budget for 2017/18 has been identified in the 2017/18 financial plan, which was presented to the IJB in March 2017. This identifies an expected reduction in funding of £2.8 million and other inflationary cost pressures leading to a total funding gap of £12.6 million. A number of actions are identified to bridge this savings gap, with the exception of options to address the potential reduction in income.

- Base budget adjustments NLC – £1.6m
- Efficiency savings NHSL - £3.2m
- Management action (for example vacancy control)- £1.6m
- Implementation of change programme – £2m
- Underspends on non recurring basis to address delayed discharges – £1.4m

41. There have been no monitoring reports on the 2017/18 budget yet reported to the IJB. The IJB Financial Regulations set out that quarterly budget reports will be presented to the IJB within 2 months of the end of the quarter. A budget report is currently in progress and will be taken to the next IJB meeting in September 2017.

[Action Plan \(Appendix 1, point 3\).](#)

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

42. There are no financial forecasts or savings plans which look beyond 2017/18 and therefore there are no medium to long term financial plans in place. We realise that NLIJB is fully funded from the host bodies and that funding from the Scottish Government to these organisations is based on a year-on-year basis. However, this should not preclude NLIJB from preparing medium to long term financial plans based on demand and resource assumptions using sensitivity analysis and scenario planning. Longer term financial planning is an area that Audit Scotland has been encouraging in both NHS and Local Government and this should be reflected in the IJB.

[Action Plan \(Appendix 1, point 4\)](#)

Reserves strategy

43. The reserves policy was approved at the NLIJB Board meeting on 24 January 2017.

Workforce planning

44. The IJB relies on the workforce plans of the host bodies and an HR action plan 2016-19. A series of workforce-related tasks have been identified for completion in 2016/17 by the IJB. A draft Integrated Workforce Strategy has been developed which sets out the personnel requirements to support the implementation of Health and Social Care North Lanarkshire Strategic Commissioning Plan “Safer, Healthier, and Independent Lives”. The Integrated Workforce Strategy includes a proposed action plan to extend and advance the scope of practise, utilising technology where appropriate, to meet the needs of the North Lanarkshire population. The proposals aim to continue to shift the balance of hospital based care to the community, improve the quality of support and care delivered and increase the level of job satisfaction across the workforce. The Integrated Workforce Strategy, the outcome of the Integrated Service Review Board and the development of the medium to long term Strategic Financial Plan are three key workstreams which will be reported to the IJB in 2017/2018.

Part 4

Governance and transparency



Main judgements

NLIJB has appropriate governance arrangements.

Risk management arrangements have been finalised and are now being implemented with regular reporting to the IJB and the Sub-committees.

Vision

45. The vision for the IJB is set out within the Strategic Plan 2016-2026. The IJB has the following vision:

46. The people of North Lanarkshire will achieve their full potential through:

- Living safe, healthy and independent lives in their communities
- Receiving the right information, support and care they need, efficiently and effectively, at the right time, in the right place and in the right way
- Ensuring North Lanarkshire is the best place in Scotland to grow up.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

47. NLIJB does not have its own anti-fraud strategy however it places reliance on the strategies of both NHS Lanarkshire and North Lanarkshire Council. It was found that these policies were effective through the audit work undertaken in the partner bodies.

48. NLIJB requires that all members must comply with the Code of Conduct. In addition to this a register of interest is kept for all members of NLIJB.

49. We have no specific issues to report in connection with the National Fraud Initiative data matching exercise that was undertaken by both host organisations.

50. Based on our review of the evidence we concluded that NLIJB has effective arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that need to be recorded within this report.

Governance arrangements

51. NLIJB was formally established in June 2015, however did not take responsibility for integrated delivery of health and care services until 1 April 2016. The board has representation from a wide range of service users and partners

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.

including four elected councillors nominated by North Lanarkshire Council and four directors nominated by NHS Lanarkshire.

52. The Board is supported by two sub committees, the Finance and Audit committee and the Performance, Scrutiny and Assurance committee. The Board is also supported by a Chief Officer and Chief Financial Officer. The former provides strategic and operational advice to the board while the latter is responsible for financial management including budget monitoring reports.

53. As part of the wider review of governance arrangements across the public sector, we completed a follow up on the 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at Board and committee meetings. From this work we found that:

- an appropriate level of challenge is being applied to decision making
- high standards of conduct and behaviour were observed
- NLIJB ensures that individual training needs are identified for Board members with a number of training initiatives being completed throughout the year to ensure that all members had the appropriate training to succeed in their role.

54. The governance arrangements as outlined above support good governance and accountability.

Internal audit

55. Internal audit provides the NLIJB and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes.

56. The internal audit function is carried out by North Lanarkshire Council and NHS Lanarkshire on a joint basis. A review of the adequacy of the internal audit function was carried out by the external auditors of the host bodies. We have concluded that the internal audit functions operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and have sound documentation standards and reporting procedures in place.

57. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However we considered internal audit report findings as part of our wider dimension work.

Risk management

58. The risk management strategy was approved in the shadow year for NLIJB at a meeting on 15 September 2015. Risk management updates are taken to the Finance and Audit sub-committee on a quarterly basis. Updates are also given to NLIJB Board on a quarterly basis to ensure that all board members are sighted on the risk management arrangements.

59. Based on our review of the evidence we concluded that NLIJB has appropriate risk management arrangements in place which are subject to regular review by the board.

Transparency

60. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how NLIJB is taking decisions and how it is using resources.

61. Full details of the meetings held by NLIJB are available through the North Lanarkshire Council website, where access is given to all committee papers and minutes of meetings.

62. Every committee and board meeting is open to the public and a notice can be found on the council website.

63. Overall, we concluded that NLIJB conducts its business in an open and transparent manner but we believe that improvements could be made in financial monitoring reports paragraph 33.

Other governance arrangements

64. NLIJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The Strategic Plan and locality planning arrangements enable partners to engage in and support the delivery of the health and social care provision.

Part 5

Value for money



Main judgements

The annual performance report has not yet been reported and was due at the end of July 2017. Arrangements should be put in place to ensure that the statutory reporting responsibilities are met in future years.

Best Value

65. Local government bodies, including IJBs, have a statutory duty to make arrangements to secure Best Value, through the continuous improvement in the performance of their functions. The audit findings included throughout this report comment on arrangements that have been put in place for the NLIJB to secure Best Value in areas such as financial management, financial sustainability, governance and transparency.

Performance management

66. In order to achieve value for money NLIJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

67. The Strategic Plan identifies six strategic priorities that are linked to the Scottish Government's nine health and wellbeing outcomes, together with the six additional outcomes for children and community justice. These are:

- Addressing inequalities
- Person centred support
- Maximising all our assets
- Prevention and early intervention
- Effective, safe, quality and timely care
- Making the whole system work efficiently

68. The Joint Board is required to publish an annual performance report within four months of the year end. The draft annual performance report for 2016/17 was considered by the Performance, Scrutiny and Assurance Sub-Committee at its meeting on 12 September 2017 and was approved for publication by the Joint Board at its meeting on 26 September 2017. The statutory publication deadline was therefore missed for 2016/17. Arrangements should be put in place to ensure that the Joint Board meets its statutory reporting responsibilities in future years.

Value for money is concerned with using resources effectively and continually improving services.

Delayed Discharges

69. The local audit team for NHS Lanarkshire completed a review of delayed discharges. The board can only reduce delayed discharges by working closely with the North and South Lanarkshire IJBs. The draft report was issued to the board in June 2017.

70. The report identified areas of good practice in the management of delayed discharges in Lanarkshire, but also areas where improvements could be achieved. The health board and IJBs are currently considering the report to agree the actions required.

71. The areas of good practice identified within the report were:

- Delayed discharge statistics are regularly monitored by both the Corporate Management Team (CMT) and Board.
- The Lanarkshire Unscheduled Care Improvement Board / Whole System Delayed Discharge Group brings together representatives from the Health Board, North Lanarkshire IJB and South Lanarkshire IJB, to identify trends and issues in delayed discharge and unscheduled care and to seek ways to address these.
- Delayed discharge hubs are in place to arrange the ongoing care of patients.

72. Areas where improvements should be considered include:

- Monitoring arrangements of delayed discharges in the IJBs are at an early stage and need to be kept under review to ensure they are effective in identifying areas for focus to improve performance.
- Review of the role and operation of the discharge hubs to ensure their staff and resources are used effectively.
- Review of the use of patient information systems such as Wardview and the Social Work Information System (SWIS) to ensure they assist staff in the management of patient flow.
- Review of the timing of ward rounds to discharge patients.
- Comparing working practices between North and South Lanarkshire services and roll out of good practice across the Lanarkshire area, to promote a consistent patient experience.

National performance audit reports

73. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports, some of which are of direct interest to NLIJB. These are outlined in [Appendix 3 \(page 25\)](#). NLIJB considers the relevance of national reports and where appropriate includes them in Board papers.

74. In December 2015, we published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are far reaching and have scope to address previous barriers to providing the right care for people closer to home. We also reported some significant risks to the success of health and social care integration. These included complex governance arrangements, difficulties in budget-setting and

consequent delays in strategic planning. The scale of the change is significant and will not happen quickly.

75. We will carry out a second audit in 2018 to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
9	<p>1. Hospital Acute Services (Set Aside)</p> <p>Arrangements for the sum set aside for hospital acute services under the control of NLIJB are not yet operating as required by legislation and statutory guidance.</p> <p>A notional figure has been agreed and included in the annual report and accounts. This is based on 2014/2015 activity levels uprated to reflect the 2016/2017 price basis and does not reflect actual hospital use.</p> <p>This is a transitional arrangement agreed by the Scottish Government.</p> <p>Risk</p> <p>In future years the sum set aside recorded in the annual accounts will not reflect actual hospital use.</p>	<p>NHS Lanarkshire and NLIJB should prioritise establishing revised processes for planning and performance management of delegated hospital functions and associated resources in 2017/18.</p>	<p>Work is ongoing to develop a more robust measurement of the use of hospital acute services.</p> <p>This development relies on the information from ISD on activity levels.</p> <p>December 2017</p>
11	<p>2. Financial monitoring report improvement</p> <p>The in-year monitoring reports did not forecast the £7.4 million underspend. There were late budget adjustments with final revised budgets being confirmed in January 2017.</p> <p>Risk</p> <p>Budget reports do not provide sufficient information to enable members to review in-year financial performance.</p>	<p>Financial monitoring reports should be reviewed to ensure that they include reliable financial projections.</p>	<p>Each partner is aware of the requirement to ensure the in-year financial reporting is improved to include reliable financial projections.</p> <p>NHSL also recognise the value of providing a financial projection to 31 March and are progressing this.</p> <p>The Chief Financial Officer is developing a new financial reporting template for the IJB.</p> <p>December 2017</p>



Page
no.

Issue/risk

Recommendation

Agreed
management
action/timing

Page no.	Issue/risk	Recommendation	Agreed management action/timing
13	<p>3. 2017/18 Budget</p> <p>There have been no monitoring reports on the 2017/18 budget to date. There is a lack of information being given to members on the IJB spend in the first 5 months of the year.</p> <p>Risk</p> <p>Budget reports do not provide sufficient information to enable members to review in-year financial performance.</p>	<p>The budget reports for 2017/18 should be reported to the Board timeously</p>	<p>Each partner reports their financial performance to their Committee/Board every four weeks/month, as appropriate.</p> <p>The IJB Financial Regulations set out that quarterly budget reports will be presented to the IJB within 2 months of the end of the quarter.</p> <p>A budget report is currently in progress and due to be taken to the next IJB meeting in September 2017.</p> <p>September 2017</p>
14	<p>4. Medium to Long term Financial Plans</p> <p>There are no medium to long term financial plans in place. Audit Scotland is encouraging councils and health boards to develop medium and long term financial plans and we expect IJBs to do this too.</p> <p>Risk</p> <p>NLIJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).</p>	<p>A medium to long term financial plan is being developed. This relies on the financial planning assumptions of each partner and will influence the outcome of the Integrated Service Review Board and the Integrated Workforce Strategy.</p> <p>December 2017</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Service auditor assurances will be obtained from the auditors of North Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure 	<ul style="list-style-type: none"> Confirmations of testing by external auditors of the Council and Health Board for journal entries, and testing over the completeness, accuracy and allocation of income and expenditure. This was confirmed through written assurances. There were no issues identified.
<p>2 Financial statements preparation</p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with North Lanarkshire Council and NHS Lanarkshire. There is a risk that the procedures for agreeing the year end balances are not fully embedded and that the financial statements are not delivered to the agreed timescale and in the required format.</p>	<ul style="list-style-type: none"> We continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met. Service auditor assurances were obtained from the auditors of North Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure. 	<ul style="list-style-type: none"> The required information was disclosed within the accounts and the financial statements were prepared in accordance with the Code. The timetable for NHS reporting requirements was met.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Budget overspends</p> <p>Based on the current budget monitoring (for the period to 31 October 2016) there is a projected overspend of £0.336 million. There are also additional pressures in relation to the</p>	<ul style="list-style-type: none"> Reviewed the outcome of due diligence exercise. Ensured budget monitoring is robust and accurately reflects the financial position. Confirmation of agreement of funding and balances with 	<ul style="list-style-type: none"> Our review of budget monitoring identified the need to improve the financial projections which we have reported in our Action Plan Year end balances were

Audit risk	Assurance procedure	Results and conclusions
prescribing budget where, due to the accounting process, the outcome will not be known until 2 months after the year end. There is a risk that an overspend is incurred which has to be distributed to the council and health board.	host bodies	agreed with host bodies.

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update  Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review  Managing new financial powers: an update

North Lanarkshire Integration Joint Board

2016/17 Annual Audit Report

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