

# South Lanarkshire Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for members of South 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

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 The financial statements of South Lanarkshire Integration Joint Board for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2 We have issued an unqualified independent auditor's report on the South Lanarkshire Integration Joint Board Annual Report and Accounts for 2016/17.

## Financial management

- 3 Budget monitoring and reporting processes should be improved to ensure that members have sufficient timely and relevant information to enable them to take appropriate action and request necessary adjustments.
- 4 Key controls within the main financial systems of both partner bodies were operating satisfactorily.

## Financial sustainability

- 5 An underspend of £6.119 million is reported in the financial statements for 2016/17.
- 6 A medium to long term financial plan should be developed to bring together risks and opportunities affecting the Joint Board's financial position and financial sustainability.

## Governance and transparency

- 7 Generally, the Joint Board has effective governance arrangements in place. However, it should review how it is organised to conduct its work and whether it could work more effectively through greater use of committees.
- 8 Internal audit arrangements and expectations need to be further clarified and formalised.
- 9 The Joint Board has adequate risk management arrangements in place with a commitment to further improving existing arrangements.
- 10 The Joint Board is open and transparent however, current arrangements could be further improved, with easier public access to information on the services provided.

## Value for money

- 11 The statutory publication deadline of 31 July 2017 for the Annual Performance Report was missed for 2016/17.
- 12 Mechanisms and reporting arrangements should be implemented to provide assurance, to the Chief Officer and the Joint Board, that partners have arrangements in place to demonstrate that they are delivering Best Value.

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# Introduction

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1. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Performance and Audit Committee.
2. This report sets out our findings from:
  - the audit of the Annual Report and Accounts
  - our consideration of the wider dimensions of public sector audit, [Exhibit 1](#), as set out in Audit Scotland's [Code of Audit Practice](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2016/17 were:
  - an assessment of the Joint Board's arrangements for recording financial information and its governance arrangements
  - an audit of the Joint Board's 2016/17 Annual Report and Accounts
  - obtaining service auditor assurances from the auditors of NHS Lanarkshire (NHSL) and South Lanarkshire Council (SLC)
  - a review of the Joint Board's arrangements to demonstrate Best Value, manage performance, and use of resources.
4. The management of Joint Board is responsible for, inter alia:
  - preparing financial statements which give a true and fair view

- putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.

**5.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**6.** An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the auditor's responsibility to express an opinion on the Annual Report and Accounts prepared by management. This does not relieve management of the responsibility for the preparation of the Annual Report and Accounts.

**7.** An action plan is included at [appendix 1 \(page 24\)](#) setting out our recommendations to address the issues and risks we identified from our audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Agreed management action/timing". We recognise that not all risks can be eliminated or even minimised. What is important is that the Joint Board understands its risks and has arrangements in place to manage them. The Audit Committee should ensure that it is satisfied with the proposed actions and has an adequate mechanism in place to assess progress and monitor outcomes.

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

**9.** This report is addressed to both the Joint Board and the Accounts Commission and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**10.** The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Part 1

## Audit of 2016/17 Annual Report and Accounts



### Main judgements

The financial statements of South Lanarkshire Integration Joint Board for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.

We have issued an unqualified independent auditor's report on the South Lanarkshire Integration Joint Board Annual Report and Accounts for 2016/17.

### Unqualified audit opinions

11. The Joint Board's Annual Report and Accounts for the year ended 31 March 2017 was approved by the Joint Board on 12 September 2017.
12. We reported, in our Independent Auditor's Report:
  - an unqualified opinion on the financial statements;
  - an unqualified audit opinion on the auditable part of the remuneration report, management commentary and annual governance statement.
13. We also concluded that there were no matters upon which we are required to report to the Accounts Commission by exception.

### Submission of annual accounts for audit

14. We received the unaudited financial statements on 28 June 2017, which was later than expected, although it was within the statutory deadline of 30 June 2017. The working papers provided with the unaudited financial statements were of a good standard; however, some supplementary information took some time to be provided. After completion of the audit, we would welcome a discussion with management on how we can improve the process in future years and ensure the most efficient use of Joint Board and audit resources.
15. Information was provided to NHS Lanarkshire in relation to the year-end figures in accordance with the pre-agreed timetable. The information provided was considered adequate for consolidation purposes. Assurances from NHS Lanarkshire and South Lanarkshire Council were received by the Joint Board in a timely manner.

### Risks of material misstatement

16. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and potential impact on the financial statements. We set out in our Annual Audit Plan, the audit work we proposed to

The Annual Report and Accounts is the principal means of accounting for the stewardship of the Joint Board's resources and its performance in the use of those resources.

undertake to secure appropriate levels of assurance. [Appendix 2](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

## Materiality

**17.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

**18.** Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

**19.** On receipt of the Annual Report and Accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate. Our final materiality levels are summarised at [Exhibit 2](#).

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## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> - 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.	£4.675 million
<b>Performance materiality</b> - 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.	£2.337 million
<b>Reporting threshold</b> - 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.	£0.047 million

## Evaluation of misstatements

**20.** There were no misstatements which had an impact on the unaudited Annual Report and Accounts.

## Significant findings

**21.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit "to those charged with governance". Our findings are summarised at [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan at [Appendix 1](#) has been included.

## Exhibit 3

### Significant findings from the audit of the Annual Report and Accounts

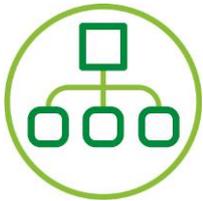
Issue	Resolution
<p><b>1. Hospital acute services (set aside)</b></p> <p>Partners agreed that hospital acute services would be managed by NHS Lanarkshire with no in year financial consequences to the Joint Board. The “set aside” budget is the Joint Board’s share of the budget for delegated acute services provided by large hospitals on behalf of the Joint Board. Included within the total Joint Board expenditure of £467.469 million is £55.154 million ‘set aside’ costs for hospital acute services.</p> <p>The budget and actual expenditure reported for the “set aside” are equal. The figure is based on 2014/2015 activity levels for hospital inpatient and day case activity and provided by NHS National Services Scotland’s Information Services Division.</p>	<p>The Comprehensive Income and Expenditure Account in the annual accounts correctly incorporates the set aside costs.</p> <p>This is a transitional arrangement for 2016/2017 agreed by Scottish Government. NHS Lanarkshire and the Joint Board should prioritise establishing revised processes for planning and performance management of delegated hospital functions and associated resources in 2017/18.</p> <p><a href="#">Action Plan (Appendix 1, point 1).</a></p>

### Other Findings

**22.** In addition to the issues set out above and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

# Part 2

## Financial management



### Main judgements

**Budget monitoring and reporting processes should be improved to ensure that members have sufficient timely and relevant information to enable them to take appropriate action and request necessary adjustments.**

**Key controls within the main financial systems of both partner bodies were operating satisfactorily.**

### Financial management

**23.** Financial management is about financial capacity, sound budgetary processes and the control environment in operation over financial systems. It is the Joint Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

**24.** The Joint Board is required by statute to make arrangements for the proper administration of its financial affairs and to appoint a "proper officer" to have "responsibility for the administration of those affairs" (section 95 of the Local Government (Scotland) Act 1973). For the South Lanarkshire Integration Joint Board that officer is the Chief Financial Officer.

**25.** The integration scheme between NHS Lanarkshire and South Lanarkshire Council sets out the budget contribution in respect of all of the functions delegated to Joint Board. Delegated baseline budgets for 2016/17 were subject to due diligence.

**26.** The Joint Board does not have any assets, nor does it directly incur expenditure or employ staff. All expenditure relating to services delegated to the Joint Board is incurred by NHS Lanarkshire or South Lanarkshire Council and processed through their financial systems.

**27.** As auditors, we need to consider whether the Joint Board has 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 the Joint Board
- regular monitoring reports containing both financial and performance information are provided to the Joint Board
- Joint Board members provide a good level of challenge and question budget holders on significant variances.

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

**28.** The Chief Financial Officer took up the post on 2 June 2016 and is appropriately qualified for the role. Financial regulations and standing orders are comprehensive and mirror those of the partner bodies.

**29.** The Joint Board is responsible for scrutinising financial and operational performance and ensuring that prompt corrective actions are taken where appropriate. To discharge this duty it needs timely and comprehensive budget monitoring information, including projections of the year end position. Expected information in periodic budget monitoring reports includes;

- explanations of any adjustments to the baseline budgets
- forecast outturns for the year with reasons for significant variances from budget
- income and expenditure analysed in accordance with the services provided by each partner

**30.** The Chief Financial Officer, as “proper officer” requires full access to financial information, from both partners, in order to be able to provide the Joint Board with assurances as to financial performance. During the year, incomplete budget monitoring information was reported in respect of Health Care Services and it was not possible to reconcile budget/expenditure to the delegated budget for the Joint Board. We recognise that the process to align the health care budgets to the functions delegated to the Joint Board is complex and that work is continuing to refine the future reporting arrangements.

**31.** The Joint Board was not provided with projected variances at the year end for Health Care Services budgets. The combined underspends reported in December and January was £1.853 million. At the year end an underspend of £6.119 million was reported in respect of Health Care services.

**32.** The budget outturn for the year is satisfactory in the context of the Joint Board’s annual expenditure. Underspending against budget is not, of itself, a positive outcome. Management and members should satisfy themselves that reasons for significant underspending/overspending against budget lines are understood. Where necessary, adjustments should be made to ensure that the budget approved is up to date and reflects the underlying cost of the service level agreed by the Joint Board.

**33.** Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. The deficiencies in budget monitoring information, including the lack of full year projected variances, entails a risk that Joint Board members are not receiving sufficient information to enable them to scrutinise and challenge performance effectively or consider in-year re-allocation of resources to other service areas.

[Action Plan \(Appendix 1, point 2\).](#)

**34.** It is important that members understand the financial information presented in budget monitoring reports and are equipped with the knowledge and skills to enable them to effectively scrutinise and challenge. Finance can be a complex business and members would benefit from specific financial training to help them discharge their financial responsibilities.

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

**35.** Overall, we have concluded that the budget monitoring and reporting processes should be improved to ensure that members have sufficient timely and relevant information to enable them to take appropriate action and request necessary adjustments.

## **Internal controls**

**36.** All financial transactions of the Joint Board are processed through the financial systems of NHS Lanarkshire and South Lanarkshire Council. International Standard on Auditing 402 obliges us, as the external auditor to the Joint Board, to obtain sufficient appropriate audit evidence regarding the systems of internal control used to produce the transactions and balances in the Joint Board's Annual Report and Accounts. We concluded that the key controls within the main financial systems of both partner bodies were operating satisfactorily and that no significant risks were identified.

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

**37.** We concluded that the Joint Board had effective arrangements in place for the prevention and detection of bribery and corruption and we are not aware of any specific issues that we need to record in this report.

# Part 3

## Financial sustainability



### Main judgements

**An underspend of £6.119 million is reported in the financial statements for 2016/17.**

**A medium to long term financial plan should be developed to bring together risks and opportunities affecting the Joint Board's financial position and financial sustainability.**

### Financial performance in 2016/17

**38.** The integration scheme and financial regulations set out the arrangements between the Council and NHS Lanarkshire for addressing and financing any overspends or underspends. Underspends may be returned to the relevant partner in year, through a contribution adjustment, or retained by the Joint Board in general reserves. Where there is a forecast overspend, the Joint Board must agree a recovery plan to balance the overspending budget.

**39.** The Joint Board set a breakeven budget for 2016/17. This was based on expenditure of £451.246 million with £349.503 million contributed from NHS Lanarkshire and £101.743 million contributed by South Lanarkshire Council. The budget was increased by £13.634 million during the year to £464.880 million.

**40.** An underspend of £6.119 million is reported in the financial statements for 2016/17, [Exhibit 4](#). The Joint Board agreed to earmark £4.760 million of the underspend for specific commitments in 2017/2018. The balance of £1.359 million will be carried forward as a general contingency to manage the programme to shift the balance of care and unanticipated budget pressures.

### Financial planning

**41.** The Joint Board allocates the resources it receives from the Council and NHS Lanarkshire in line with the Strategic Commissioning Plan. The Financial Plan for 2017/2018 was approved by the Joint Board on 28 March 2017.

**42.** Financial projections for 2017/18 predict a breakeven position in the year, although both the Council and NHS Lanarkshire face challenges balancing their respective budgets. Proposed efficiency savings have been identified and ways in which these savings can be made have been outlined to the Joint Board.

Financial sustainability looks forward to the medium and longer term to consider whether the Joint Board is effectively planning to continue to deliver services.

## Exhibit 4

### Budget v actual expenditure 2016/17

	Budget £m	Actual £m	Variance £m
NHS Lanarkshire	356.813	311.480	45.333
South Lanarkshire Council Lanarkshire	116.775	155.989	(39.214)
<b>Total Net Expenditure</b>	<b>473.588</b>	<b>467.469</b>	<b>6.119</b>
Surplus (from NHS Lanarkshire to be retained by the Joint Board)	0.000	6.119	6.119
Surplus (from South Lanarkshire Council to be retained by the Joint Board)	0.000	0.000	0.000
Earmarked Reserves	0.000	4.760	4.760

Source: South Lanarkshire Integration Joint Board monitoring information

**43.** The current budget process does not include medium to long term financial planning. One of the challenges for the Joint Board is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing medium/longer term funding strategies to address its priorities. While this is an obstacle to precise financial planning management should prepare a 3-5 year rolling budget using what information is available and incorporating sensitivity analysis and scenario planning. In the absence of medium to long term financial planning the future financial risks facing Joint Board may not be clearly understood.

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

### Reserves strategy

**44.** The Joint Board is empowered to hold reserves. A Reserves Policy and Reserves Strategy were approved by the Joint Board in February 2017.

### Efficiency savings

**45.** Funding shortfalls were identified in the Joint Board's 2017/18 budget. Each partner proposed a range of efficiency savings to achieve financial balance. Plans to achieve savings (South Lanarkshire Council £0.498 million and NHS Lanarkshire £2.127 million) were approved by the Joint Board in March 2017. Work has been carried out by each partner to confirm achievability and assess service delivery impact.

# Part 4

## Governance and transparency



### Main judgements

Generally, the Joint Board has effective governance arrangements in place. However, it should review how it is organised to conduct its work and whether it could work more effectively through greater use of committees.

Internal audit arrangements and expectations need to be further clarified and formalised.

The Joint Board has adequate risk management arrangements in place with a commitment to further improving existing arrangements.

The Joint Board is open and transparent however, current arrangements could be further improved, with easier public access to information on the services provided.

### Governance arrangements

46. The integration scheme between South Lanarkshire Council and NHS Lanarkshire sets out the governance arrangements. The Joint Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of South Lanarkshire Integration Joint Board and for monitoring the adequacy of these arrangements. The Joint Board's governance arrangements and procedures are regulated by a set of procedural documents including a Scheme of Delegation; Standing Orders; Terms of Reference; and Financial Regulations.

47. The Joint Board is responsible for the strategic commissioning of health and social care services in South Lanarkshire and is supported by a number of groups as illustrated at [Exhibit 5](#). It is responsible for setting priorities and policies in the context of legislative requirements and has an obligation to report, explain and be answerable for its decisions. It comprises a wide range of service users and partners including four elected councillors nominated by South Lanarkshire Council and four directors nominated by NHS Lanarkshire

48. The Board is supported by a Chief Officer who provides overall strategic and operational advice to the Joint Board and is directly accountable for the delivery of services. The Chief Officer is also accountable to both the Chief Executive of South Lanarkshire Council and the Chief Executive of NHS Lanarkshire and provides regular reports to both the Council and the board of NHS Lanarkshire. A Standards Officer and Deputy Standards Officer have also been appointed.

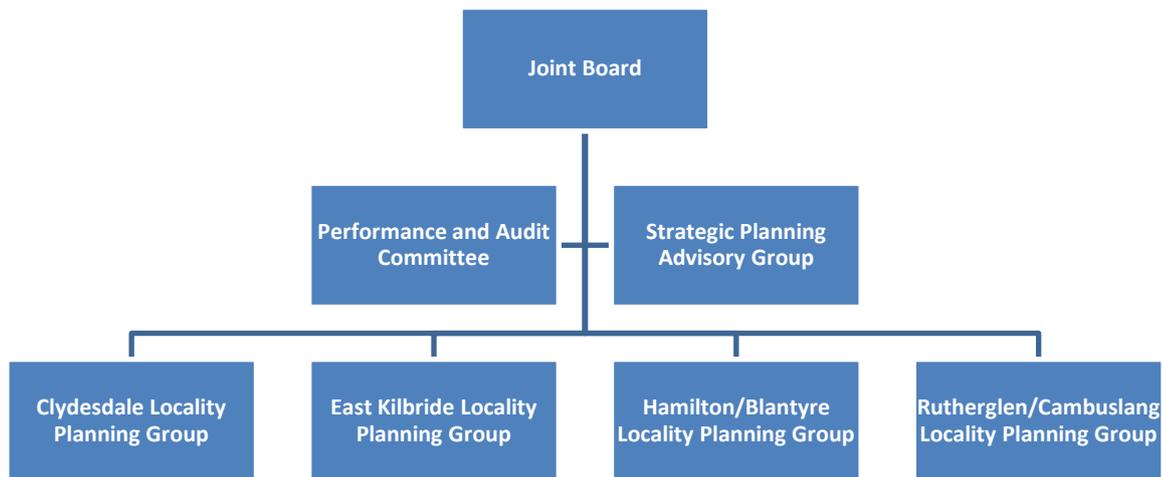
49. The Joint Board and Performance and Audit Committee meet on a regular basis throughout the year. We attend meetings of the Joint Board, mainly as

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

observers. We also attend the Performance and Audit Committee, frequently as contributors.

## Exhibit 5

### Committees and groups at South Lanarkshire Integration Joint Board



Source:

**50.** The Joint Board is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. From observation of Joint Board meetings, it was noted that the actual number of people attending is in excess of thirty. Extensive agendas include varied, and sometimes complex, papers for discussion and decisions. The Joint Board should review how it is organised to conduct its work and whether it could work more effectively through greater use of committees.

[Action Plan \(Appendix 1, point 5\)](#)

**51.** The Performance and Audit Committee meets in public and delivers a good standard of debate and scrutiny.

**52.** We concluded that, overall, the Board has satisfactory governance arrangements in place however it should consider whether the current structure is best suited to its work.

### Internal audit

**53.** Internal audit is intended to provide members and management with independent assurance on risk management, internal control and corporate governance processes. The Joint Board did not establish internal audit arrangements until September 2016 and this has delayed the completion of the internal audit work and the provision of the annual internal audit opinion. There is no formally designated Chief Internal Auditor. The internal audit function is carried out jointly by a team from South Lanarkshire Council and NHS Lanarkshire.

**54.** In September 2016 the Joint Board were advised that protocols would be developed to provide a framework within which the internal audit service would be provided, including planning and conducting work and the reporting of results.

[Action Plan \(Appendix 1, point 6\)](#)

**55.** Each partner organisation has its own internal audit service. As part of our routine planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the requirements of Public Sector Internal Audit Standards (PSIAS). A review of the adequacy of the respective internal audit functions was carried out by the external auditors of the host bodies from which an assessment was made in relation to the Joint Board. We concluded that the internal audit function operates largely in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**56.** The Chief Internal Auditor(s) is required by PSIAS to provide an opinion to the Joint Board on the outcomes of the internal audit work carried out during the year. PSIAS states that '*The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'. The Annual governance statement was approved by the Joint Board on 27 June 2017.

**57.** The 2017/18 annual internal audit report was not issued until mid-August 2017. No interim reports were issued during the year although this can be attributed, in the main, to the late establishment of internal audit arrangements. Results from the 2016/17 internal audit work are included in the annual internal audit report. The Chief Internal Auditor(s) concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Joint Board's systems of governance, risk and internal control.

## Annual Governance Statement

**58.** The Annual Governance Statement is published as part of the Joint Board's Annual Report and Accounts. Its purpose is to provide assurance regarding the Joint Board's governance arrangements. Essentially, it accounts for the extent to which the Joint Board has complied with its own Code of Governance.

**59.** The CIPFA/SOLACE document *Delivering Good Governance in Local Government* provides guidance on the format and wording of the Annual Governance Statement. In respect of the previous financial year, the Annual Governance Statement should set out the key elements of the Joint Board's governance framework and summarise how assurance is obtained on these key elements. It should also list those areas where improvement is required and how this is being managed.

**60.** The Annual Governance Statement included in the unaudited 2016/17 Annual Report and Accounts included too much superfluous detail which tended to obscure the key governance messages. The Chief Financial Officer agreed to revise the statement for 2016/17 and consider what further refinements could be applied for 2017/18.

## Risk management

**61.** As part of the preparatory work to establish the Joint Board, work was undertaken to prepare a Risk Register and Risk Management Strategy. Alongside and underpinning this are the risk management arrangements and registers prepared by NHS Lanarkshire and South Lanarkshire Council.

**62.** There are currently four separate risk registers which have relevance to the Joint Board's operations. The Joint Board Risk Register, the NHS Lanarkshire

Corporate Risk Register, the South Lanarkshire Council's Social Work Resources Risk Register and the risk associated with the delivery of Community Health Services. Regular risk management updates are provided to the Performance and Audit Committee

**63.** Management recognise that a specific risk register should be an integral part of the Joint Board's governance framework. In order to streamline the reporting of risk and assurance, work is currently underway to develop a single integrated risk register which captures all of the risks facing the Joint Board.

**64.** Based on our review of the evidence we concluded that the Joint Board has adequate risk management arrangements in place with a commitment to further improving existing arrangements.

## Transparency

**65.** Local residents should be able to hold the Joint Board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the Joint Board is taking decisions and how it is using its resources.

**66.** To enhance transparency of the information provided in the financial statements we would encourage the Joint Board to include a clearer subjective analysis of income and expenditure in the notes to the accounts. An objective level of detail is provided in Note 4 but it would be helpful to readers of the accounts if more detail was provided. We note that this additional disclosure is being considered for 2017/2018.

**67.** Access to all committee papers and minutes of the Joint Board and the Performance and Audit Committee are available through the NHS Lanarkshire website. A number of governance documents are also available on the NHS Lanarkshire website, notably information on freedom of information. The current webpages are not particularly easy to navigate, incomplete and include potentially confusing pointers to information on the North Lanarkshire Integration Joint Board. An example of incomplete information would be the publication notice of the public's right of inspection of the unaudited accounts, which was published on the South Lanarkshire Council website but not on the NHS Lanarkshire webpages.

**68.** As part of the commitment to integration and to emphasise the Joint Board's leadership of health and social care in South Lanarkshire, the Joint Board should consider whether a dedicated website would afford interested citizens and stakeholders better access to information.

[Action Plan \(Appendix 1, point 7\).](#)

**69.** There is no bar to members of the public attending meetings of the Joint Board however, there is no information available to the public on how to arrange attendance. In an effort to increase transparency, a number of public sector organisations broadcast meetings live on the web and/or make recordings of meetings available via their websites. As part of the commitment to openness and transparency, the Joint Board should consider whether greater public engagement could be achieved through promotion of public attendance at meetings and/or the use of technology to reach a wider audience.

[Action Plan \(Appendix 1, point 8\).](#)

**70.** Overall we concluded that the Joint Board is open and transparent and found no evidence to suggest that information is unjustifiably withheld from public scrutiny. We have, however, made recommendations where we believe that the current arrangements could be enhanced.

## Other governance arrangements

**71.** The Joint Board continues to use the South Lanarkshire Social Work Resources and NHS Lanarkshire complaints procedures. Consequently, complaints against the Joint Board are not covered under current complaints procedures.

**72.** In March 2017 the Scottish Public Services Ombudsman (SPSO) issued guidance and a template to help Integrated Joint Boards develop an appropriate complaints handling procedure. We are advised that a complaints handling procedure, based on SPSO guidance, will be prepared and submitted to the September 2017 meeting of the Joint Board for approval.

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# Part 5

## Value for money

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### Main judgements

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The statutory publication deadline for the annual performance report was missed for 2016/17. Arrangements should be put in place to ensure that the Joint Board meets its statutory reporting responsibilities in future years.

**Mechanisms and reporting arrangements should be implemented to provide assurance, to the Chief Officer and the Joint Board, that partners have arrangements in place to demonstrate that they are delivering Best Value.**

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#### Best Value

**73.** 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.

**74.** The audit findings included throughout this report, comment on arrangements that have been put in place by the Joint Board to secure Best Value in areas such as the financial position, financial management, governance and performance management arrangements. While there is evidence of elements of Best Value being demonstrated by the Joint Board, there is no mechanism for formal review. Mechanisms and reporting arrangements should be implemented to provide assurance, to the Chief Officer and the Joint Board, that partners have arrangements in place to demonstrate that they are delivering Best Value.

[Action Plan \(Appendix 1, point 9\).](#)

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

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#### Performance management

**75.** The Joint Board needs to demonstrate how it aims to achieve value for money in providing services. To drive this, the Joint Board should have effective arrangements for scrutinising performance, monitoring progress towards strategic objectives and holding partners to account.

**76.** The Strategic commissioning Plan identifies ten 'priority themes' that are linked to the Scottish Government's nine health and wellbeing outcomes. These are:

- statutory work
- early intervention
- prevention health inequalities.

- carers support
- models of self care and self management including Telehealth and Telecare
- seven day services
- intermediate care to reduce reliance on hospital and residential care
- suitable and sustainable housing
- single points of contact mental health and wellbeing

**77.** Following approval of the Strategic Commissioning Plan, a draft Performance Reporting Framework (PRF) was prepared as the basis of a monitoring tool for the Joint Board.

**78.** The PRF which has continued to be refined and progressed throughout the year allows progress to be measured against the 9 national health and wellbeing outcomes, the 10 overarching priority themes, 63 commissioning intentions and 3 thematic implementation groups of Early Intervention, Prevention and Health Improvement; Intermediate Care and Reduced Reliance on Hospital and Residential Care; and Mental Health and Wellbeing. Quarterly Progress Reports are submitted to the Performance and Audit Committee.

**79.** 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 and Audit Committee at its meeting of 29 August 2017 and was approved for publication by the Joint Board at its September meeting. 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.

[Action Plan \(Appendix 1, point 10\).](#)

**80.** In terms of the performance reporting framework, of the 157 performance measures (comprising key performance indicators and commissioning intentions), 108 (69%) are reported as having met the timescale/target expectations. Of the remainder 11 (7%) are reporting minor slippage with 9 (6%) reporting major slippage. A further 29 (18%) will be reported later or are contextual in nature. [Exhibit 6.](#)

## Local performance audit – Managing Delayed Discharges

**81.** In June, NHS Lanarkshire's auditors issued a report on arrangements for managing delayed discharges. The report identified areas of good practice and areas where improvements could be made to improve the patient experience across Lanarkshire.

**82.** The areas of good practice identified in 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 NHS Lanarkshire and both Lanarkshire Integration Joint Boards, 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

**83.** Areas where improvements should be considered include:

- Monitoring arrangements of delayed discharges in the Joint Boards 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 services 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.

**84.** Health and social care integration in Scotland has added complexity to who is responsible for reducing instances of delayed discharge. However, it has also presented opportunities for the Joint Board and its partners to work together. The Lanarkshire partners have recognised this and agreed a joint action plan to address the improvements recommended in the audit report. A number of the actions have been assigned to the South Lanarkshire Integration Joint Board's Chief Officer. Progress in implementing the actions will be monitored by the auditors of the NHS Lanarkshire and Joint Boards.

**85.** Management have advised that since the audit report was published, significant progress has been made in implementing the recommendations. Work is also underway to identifying an increased range of community supports which could have a positive impact both in avoiding hospital admission as well as supporting earlier discharge, including:

- Introduction of 22 intermediate care beds throughout South Lanarkshire in supporting more people to be discharged timeously from hospital.
- Estimated Date of Discharge (EDD) processes are now working in a number of wards in Hairmyres hospital.
- Piloting a change to the management of patients undergoing Adults With Incapacity (AWI) processes.

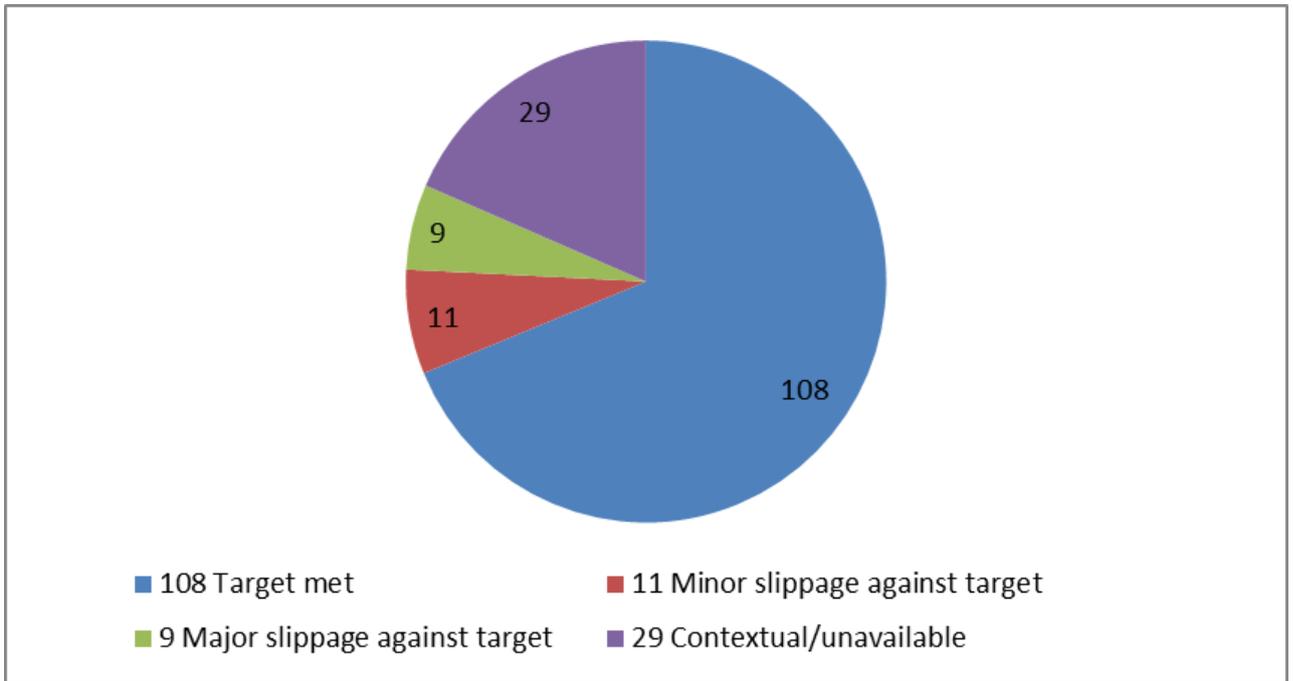
**86.** In addition, the Corporate Management Team of NHS Lanarkshire have recently agreed considered and agreed an action plan update flowing from the Delayed Discharges Report.

## National performance audit reports

**87.** 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 which are of direct interest to the Joint Board appendix 3. National reports are presented to the Joint Board with a covering report from the relevant officer highlighting any implications for the Joint Board.

## Exhibit 6

### Performance against targets 2016/17



# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p><b>1. Hospital acute services (set aside)</b></p> <p>Included within the total Joint Board expenditure of £467.469 million is £55.154 million 'set aside' costs for hospital acute services.</p> <p>The figure is, essentially an estimate, based on 2014/2015 activity levels for hospital inpatient and day case activity and provided by NHS National Services Scotland's Information Services Division.</p> <p><b>Risk</b></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 the Joint Board should prioritise establishing revised processes for planning and performance management of delegated hospital functions and associated resources in 2017/18.</p>	<p><b>Agreed</b></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><b>Responsible Officer</b></p> <p>Chief Financial Officer in consultation with the NHS Lanarkshire Director of Finance</p> <p><b>Timing</b></p> <p>December 2017</p>
11	<p><b>2. Budget monitoring</b></p> <p>During the year incomplete budget monitoring information was reported in respect of Health Care Services and it was not possible to reconcile budget/expenditure to the delegated budget for the Joint Board.</p> <p><b>Risk</b></p> <p>The Chief Financial Officer is not able to provide members with information sufficient to enable them to scrutinise and challenge performance effectively or consider in-year re-allocation resources to other service areas.</p>	<p>Financial information reporting processes from partners should be improved to ensure that the Chief Financial Officer is being provided with complete, relevant and timely financial information.</p>	<p><b>Agreed</b></p> <p>The financial monitoring arrangements continue to be refined to ensure the in-year financial reporting is accurate and complete and financial risks continue to be effectively managed.</p> <p>NHS Lanarkshire 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><b>Responsible Officer</b></p> <p>Chief Financial Officer in consultation with the NHS</p>



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no.

Issue/risk

Recommendation

Agreed management  
action/timing

			<p>Lanarkshire Director of Finance and the South Lanarkshire Council Executive Director (Finance and Corporate Resources)</p> <p><b>Timing</b></p> <p>September 2017 to December 2017</p>
<p>11</p>	<p><b>3. Members training</b></p> <p>It is important that members understand the financial information presented in budget monitoring reports and are equipped with the knowledge and skills to enable them to effectively scrutinise and challenge.</p> <p><b>Risk</b></p> <p>Members do not have a sufficient understanding of information being presented to them to enable them to properly challenge and/or make decisions.</p>	<p>Members should be provided with specific financial training to help them discharge their financial responsibilities.</p>	<p><b>Agreed</b></p> <p>A programme is being developed to ensure the IJB Members receive appropriate support to fulfil their responsibilities.</p> <p><b>Responsible Officer</b></p> <p>Chief Financial Officer</p> <p><b>Timing</b></p> <p>September 2017 to March 2018</p>
<p>14</p>	<p><b>4. Medium to long term financial planning</b></p> <p>The Joint Board has no financial plans in place beyond 2017/18.</p> <p><b>Risk</b></p> <p>In the absence of medium to long term financial planning the future financial risks facing Joint Board may not be clearly understood.</p>	<p>Management should prepare a 3-5 year rolling budget using what information is available and incorporating sensitivity analysis and scenario planning.</p>	<p><b>Agreed</b></p> <p>A medium to long term financial plan is being developed. This relies on the financial planning assumptions of each partner.</p> <p><b>Responsible Officer</b></p> <p>Chief Financial Officer</p> <p><b>Timing</b></p> <p>December 2017</p>
<p>16</p>	<p><b>5. Meetings</b></p> <p>Joint Board meetings are attended by in excess of thirty people. Extensive agendas include varied, and sometimes complex papers for discussion and decisions.</p> <p><b>Risk</b></p> <p>Loss of focus on strategic issues at Joint Board level.</p>	<p>The Joint Board should review how it is organised to conduct its work and whether it could work more effectively through greater use of committees.</p>	<p><b>Agreed</b></p> <p>Following the first year of operation, a review of the IJB arrangements will be undertaken to ensure business is conducted effectively.</p> <p><b>Responsible Officer</b></p> <p>Chief Officer</p> <p><b>Timing</b></p> <p>December 2017</p>



Page  
no.

Issue/risk

Recommendation

Agreed management  
action/timing

17	<p><b>6. Internal Audit</b></p> <p>Protocols have not yet been developed to provide a framework within which the internal audit service is provided.</p> <p><b>Risk</b></p> <p>Lack of clarity over responsibilities, planning and conducting work and the reporting of results.</p>	<p>The Joint Board should review internal audit arrangements and ensure that the internal audit work is deliverable within the required timescales.</p>	<p><b>Agreed</b></p> <p>Internal audit protocols will be finalised and presented to the Audit and Performance Sub-Committee.</p> <p><b>Responsible Officer</b></p> <p>South Lanarkshire Council Audit Manager and NHS Lanarkshire Chief Internal Auditor</p> <p><b>Timing</b></p> <p>December 2017</p>
18	<p><b>7. Website</b></p> <p>The Joint Board does not have its own website.</p> <p><b>Risk</b></p> <p>Service users, members and staff have difficulty in accessing information.</p> <p>The Joint Board's status as leader in health and social care is diluted.</p>	<p>The Joint Board should consider whether a dedicated website would afford interested citizens and stakeholders better access to information.</p>	<p><b>Agreed</b></p> <p>The IJB website is already being developed.</p> <p><b>Responsible Officer</b></p> <p>Communications Officer</p> <p><b>Timing</b></p> <p>December 2017</p>
18	<p><b>8. Public accessibility</b></p> <p>A number of public sector organisations broadcast meetings live on the web and/or make recordings of meetings available via their websites.</p> <p><b>Risk</b></p> <p>The Joint Board is seen as remote from its stakeholders.</p>	<p>As part of the commitment to openness and transparency the Joint Board should consider whether greater public engagement could be achieved through promotion of public attendance at meetings and/or the use of technology to reach a wider audience.</p>	<p><b>Agreed</b></p> <p>Consideration will be given to further developing effective engagement with the public.</p> <p><b>Responsible Officer</b></p> <p>Chief Officer</p> <p><b>Timing</b></p> <p>March 2018</p>
20	<p><b>9. Best Value</b></p> <p>The Joint Board should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in</p>	<p>Mechanisms and reporting arrangements should be implemented to provide assurance, to the Chief Officer and the Joint Board, that partners have arrangements in place to</p>	<p><b>Agreed</b></p> <p>A Best Value Framework will be developed which demonstrates that each partner is securing economy, efficiency, effectiveness and equality in service provision.</p>



**Page no.**

**Issue/risk**

**Recommendation**

**Agreed management action/timing**

service provision.

demonstrate that they are delivering Best Value.

**Responsible Officer**

Chief Officer

**Risk**

Opportunities for improvement through Best Value review are missed.

**Timing**

March 2018

**21**

**10. Annual Performance Report**

The statutory publication deadline for the Annual Performance Report was missed for 2016/17.

**Risk**

Failure to achieve statutory deadlines.

Arrangements should be put in place to ensure that the Joint Board meets its statutory reporting responsibilities in future years.

**Agreed**

A timeline will be agreed to ensure the Annual Performance Report is published by 31 July each year.

**Responsible Officer**

Head of Commissioning and Performance

**Timing**

December 2017

# 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 our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.</p>	<p>Detailed testing of journal entries.</p> <p>Service auditor assurances will be obtained from the auditors of South Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure.</p>	<p>Satisfactory written assurances were received from the external auditors of the council and health board regarding journal testing and accuracy, allocation and cut-off of Joint Board transactions.</p>
<p><b>2 Financial statements preparation</b></p> <p>NHS Lanarkshire will require to have the financial statements of the Integration Joint Board in sufficient time to allow incorporation into its group financial statements. Without proper planning there is a risk that the requisite information is not provided within the timescales required by NHS Lanarkshire to meet its statutory sign-off deadline of 30 June 2017.</p>	<p>Engage with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is understood.</p> <p>Formal assurances will be obtained from the auditors of South Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure</p>	<p>The required information was disclosed within the accounts and the financial statements were prepared in accordance with the Code.</p> <p>The Annual Report and Accounts met the timescales necessary to meet NHS reporting requirements.</p> <p>Satisfactory written assurances were received from the external auditors of the South Lanarkshire Council and NHS Lanarkshire regarding accuracy, allocation and cut-off of Joint Board transactions.</p>
<p><b>3 Governance statement and management assurances</b></p> <p>Preparation of the IJB financial statements relies on the provision of financial and non-financial information from the systems of the two partner</p>	<p>Ensure governance statement adequately reflects the position of IJB.</p> <p>Confirm appropriate action is taken on issues raised in internal audit reports.</p>	<p>The Annual Governance Statement adequately reflects the position of the South Lanarkshire Council and NHS Lanarkshire and assurance from Chief Internal Auditor.</p> <p>Satisfied that financial information</p>

Audit risk	Assurance procedure	Results and conclusions
<p>bodies. The Chief Financial Officer of the IJB must obtain assurance that the costs transferred to the accounts of the IJB are complete and accurate and were incurred on behalf of the IJB for services prescribed in the integration scheme.</p> <p>There is a risk that the Chief Finance officer does not have adequate assurance that information received from each party is accurate and complete.</p>	<p>Confirm that financial reporting throughout the year is accurately reflected in the year end position.</p> <p>Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.</p> <p>Seek audit assurances from the external auditors of the council and health board</p>	<p>provided by the partner bodies has been accurately incorporated into the Joint Board accounts at year end.</p> <p>Satisfactory written assurances were received from the external auditors of the council and health board regarding accuracy, allocation and cut-off of Joint Board transactions.</p>
<p><b>4 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</p> <p>The expenditure of the IJB is processed through the financial systems of South Lanarkshire Council and NHS Lanarkshire. There is a risk that non IJB related expenditure is incorrectly charged to IJB account codes.</p>	<p>Obtain assurances from the auditors of South Lanarkshire Council and NHS Lanarkshire over the accuracy, completeness and appropriate allocation of the IJB ledger entries.</p> <p>Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.</p>	<p>Satisfactory written assurances were received from the external auditors of the council and health board regarding accuracy, allocation and cut-off of Joint Board transactions.</p>
<p><b>5 Budget overspends</b></p> <p>Based on the budget monitoring report for the period to 31 October 2016 the Board is forecasting an overspend for the financial year of:</p> <ul style="list-style-type: none"> <li>• Health care services: £nil</li> <li>• Social care: £3.605 million</li> </ul> <p>There is a risk that the budget setting process is unsound and/or there is a lack of control over spending.</p>	<p>Review outcome of due diligence exercise.</p> <p>Consider whether budget monitoring is robust and accurately reflects the financial position.</p> <p>Consider whether the outturn position is accurately reported in the financial statements.</p>	<p>Incomplete and piecemeal budget monitoring reporting in respect of Health Care Services meant we were unable to reconcile budget/expenditure to the delegated budget for the partnership during the year.</p> <p>Joint Board is not being provided with complete budget information or projected variances for NHS budgets.</p> <p><a href="#">Action Plan (Appendix 1, point 2).</a></p> <p>The outturn position is accurately reported in the financial statements.</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>6 Financial sustainability</b></p> <p>South Lanarkshire Council and NHS Lanarkshire face significant financial pressures from reductions in Scottish Government funding and increasing unavoidable costs.</p>	<p>Ensure on-going budget monitoring accurately reflects the position of the IJB.</p> <p>Review recovery plans or remedial action taken to address areas of budget pressure / projected</p>	<p>See action point 5 above regarding budget monitoring <a href="#">Action Plan (Appendix 1, point 2).</a></p> <p>Underspend of £6.119 million in year and retained in reserves.</p> <p>The Joint Board's reserves policy</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that the IJB is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<p>overspends. Review reserves policy.</p>	<p>and reserves strategy, approved in February 2017, fully set out the circumstances in which reserves can be created, and the governance arrangements around their use.</p>
<p><b>7 Transparency</b></p> <p>In order to ensure transparency, information about the nature of the IJB, its performance and governance should be readily accessible to the public. The South Lanarkshire Integration Joint Board does not have its own website and therefore committee and board papers are only available on the NHS Lanarkshire website. The absence of a dedicated information site for citizens, board members and staff means there is a risk that the nature and performance of the IJB is inaccessible to stakeholders.</p>	<p>Review public reporting and other IJB information available to the public.</p>	<p>Information available to the public via the NHS Lanarkshire website (committee papers/minutes of meetings and some governance documents) and via the South Lanarkshire Council website (inspection advert and annual accounts).</p> <p>However, the Joint Board still do not have a dedicated website. <a href="#">Action Plan (Appendix 1, point 18)</a>.</p>

# 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

### IJB relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

# South Lanarkshire Integration Joint Board

## Proposed 2016/17 Annual Audit Report

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