

North Lanarkshire Integration Joint Board

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the North Lanarkshire Integration Joint Board and the Controller of Audit
4 September 2018

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

2017/18 annual report and accounts

- 1** Our audit opinions were all unqualified. These covered the financial statements, the audited part of the remuneration report, the management commentary and the annual governance statement.
- 2** Changes were made in the audited financial statements to reflect NLIJB's revised accounting for hosted services and to classify debtors with host partners according to the timescale over which reserves are expected to be applied.

Financial management and sustainability

- 3** Improvements have been made to financial management, but the Chief Financial Officer acknowledges that further improvements could be made to the timing and content of financial monitoring reports.
- 4** The general fund balance is £18 million at 31 March 2018, with £14 million earmarked for specific purposes. NLIJB should further develop a robust annual process for approving reserves, including their expected use and the expected timing of future cashflows.
- 5** There remains an element of uncertainty over the immediate financial position in 2018/19, as annual budgets at the start of the year continue to rely on some unidentified savings (£0.6 million) and non recurrent funding (£1.4 million).
- 6** NLIJB should continue to develop a medium to long term financial plan.

Governance, transparency and value for money

- 7** The IJB has reviewed its governance arrangements in 2017/18 and identified areas for improvement.
- 8** Reports by inspectorates have been positive. Areas of good practice identified include the clear and ambitious vision to deliver positive outcomes for communities, sound strategic planning and a strong partnership with voluntary sector organisations.
- 9** The annual performance report for 2017/18 omitted information about financial performance analysed by locality required by the Regulations.

Introduction

1. This report is a summary of our findings arising from the 2017/18 audit of North Lanarkshire Council Integration Joint Board, hereby referred to as 'NLIJB'.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Performance, Finance and Audit Committee. This report comprises the findings from an audit of NLIJB's annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 as illustrated in Exhibit 1.

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2017/18 have been:

- obtaining service auditor assurances from the auditors of NHS Lanarkshire (NHSL) and North Lanarkshire Council (NLC)
- an audit of NLIJB's 2017/18 annual accounts including issuing an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. NLIJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. The IJB is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

- 6.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), supplementary guidance, and International Standards on Auditing in the UK.
- 7.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of NLIJB's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability.
- 8.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#) and supplementary guidance.
- 9.** 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.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
- 11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £24,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

- 12.** Our aim is to add value by increasing insight into, and offering foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.
- 13.** This report is addressed to both the board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 14.** 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 2017/18 annual accounts



Main judgements

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

Changes were made in the audited financial statements to reflect NLIJB's revised accounting for hosted services and to classify debtors with host partners according to the timescale over which reserves are expected to be applied.

Audit opinions on the annual accounts

15. The annual accounts for the year ended 31 March 2018 were approved by the board on 4 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary, and annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

16. Additionally, we have nothing to report in respect of the other information in the annual accounts, the adequacy of accounting records, and the information and explanations we received.

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

Submission of annual accounts for audit

17. We received the unaudited annual accounts on 14 June 2018 in line with our agreed audit timetable. The working papers provided were of a good standard and the Chief Financial Officer provided support to the audit team which helped ensure the audit process ran smoothly.

Risks of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, wider dimension risks, how we addressed these and our conclusions. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team.

Materiality

19. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our planning materiality and concluded that, the materiality levels required only minor adjustment. These are shown at [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£5.5 million
Performance materiality	£2.8 million
Reporting threshold	£100,000

Significant findings from the audit in accordance with ISA 260


20. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. 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](#) has been included.

21. The findings include our views about significant qualitative aspects of the board's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Accounting for hosted services</p> <p>The unaudited financial statements did not reflect the total income and expenditure of hosted services that NLIJB is responsible for.</p> <p>NLIJB absorbs the overspends and retains the underspends of these services and therefore bears the risks and rewards. NLIJB is acting as 'principal' in this arrangement and so all the income and expenditure associated with these services should be reflected in the accounts.</p> <p>The arrangements reflected in the accounts in respect of the treatment of underspends and overspends on hosted services should be set out in the NLIJB Financial Regulations.</p>	<p>The audited financial statements include the total income and expenditure for hosted services, where NLIJB is acting as 'principal'.</p> <p>Income and expenditure have been increased by £48m to reflect the total value of the services that NLIJB commissions on behalf of SLIJB. These adjustments have no impact on the total net cost of services.</p> <p>This is a change in accounting policy and so the 2016/17 prior year comparatives in the comprehensive income and expenditure statement have been restated.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Allocation of debtors with hosts between short and longer term balances</p> <p>Unaudited financial statements allocated all of the debtor balances with North Lanarkshire Council and NHS Lanarkshire (£18.2m) to short term debtors. As this represents the usable reserves held by NLIJB and there are no plans to apply all of this reserve in 2018/19, some of the debtor should be classified as falling due after more than one year, based on the expected timing of reserve balances being used up.</p>	<p>The debtor balance in the audited financial statements has been split between short term (£13.2m) and long term (£5m).</p>

How we evaluate misstatements

22. Total errors exceeded our overall performance materiality of £2.8 million. We consider that we have identified in full the adjustments for hosted services and allocation of debtors with host organisations. There are no unadjusted errors. We have concluded that the errors are contained and do not indicate further systematic error within account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.

Good practice in financial reporting

23. The Chief Financial Officer has taken steps to improve the annual accounts and reflect some of the good practice as set out in the Audit Scotland good practice note on '[Improving the quality of local authority accounts – integration joint boards](#)' (April 2018).

Follow up of prior year recommendations

24. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

25. In total, 4 agreed actions were raised in 2016/17. Overall NLIJB has made limited progress in implementing these actions, with only one of these fully implemented. For those actions not yet implemented, revised responses and timescales have been agreed with management in [Appendix 1](#).

Part 2

Financial management and sustainability



Main judgements

Improvements have been made to financial management, but the Chief Financial Officer acknowledges that further improvements could be made to the timing and content of financial monitoring reports.



The general fund balance is £18 million (3% of gross expenditure) at 31 March 2018, with £14 million earmarked for specific purposes. NLIJB should further develop its process for approving reserves, including their expected use and timing of future cashflows.

There remains an element of uncertainty over the immediate financial position in 2018/19, as annual budgets at the start of the year continue to rely on some unidentified savings (£0.6 million) and non recurrent funding (£1.4 million).

NLIJB should continue to develop a medium to long term financial plan.

Financial management

26. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements.

27. The Chief Financial Officer of NLIJB was appointed on 2 June 2016. She reports directly to the Chief Accountable Officer and regularly reports to the Board and the Performance, Finance and Audit Committee. The Chief Financial Officer is also responsible for South Lanarkshire IJB and so her time is split between both bodies.

28. An indicative budget for 2017/18 was approved by the IJB in March 2017. This identified a funding gap of £12.6 million (2% of the total expenditure in the year). It was not clear at the time of approval how all this funding gap would be addressed. For instance, £2.8 million was marked as 'options to be identified to address potential reduction in income'. The financial plan also highlighted the 'use of underspends on a non-recurring basis' to bridge £1.4 million of the funding gap. These amounts make up less than 1% of the total expenditure in the year. However, on the basis that there were no clear plans to address this funding gap we find it difficult to see how NLIJB was able to conclude at the outset that it had a balanced budget agreed for 2017/18.

29. NLIJB relies on the host bodies to provide accurate and timely financial monitoring information in order to prepare its own quarterly financial monitoring reports. Four budget monitoring reports were taken to the board during 2017/18 in line with the NLIJB financial regulations, however we noted that the first of these was not presented until September 2017, more than five months into the financial year. Subsequent reports were provided timeously. We had raised this issue in our 2016/17 annual audit report.

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



Recommendation 2 (refer appendix 1, action plan)

30. In 2016/17, we reported that NHS Lanarkshire did not provide financial projections to the year end. NLIJB was unable to forecast an accurate year end financial position in monitoring reports throughout the year. In 2017/18, a year end forecast was provided by NHS Lanarkshire in November 2017. This was available in the December 2018 financial monitoring report (see [Exhibit 4](#)). The Chief Financial Officer has advised that as part of the improvements to financial reporting she has requested year end projections are included.

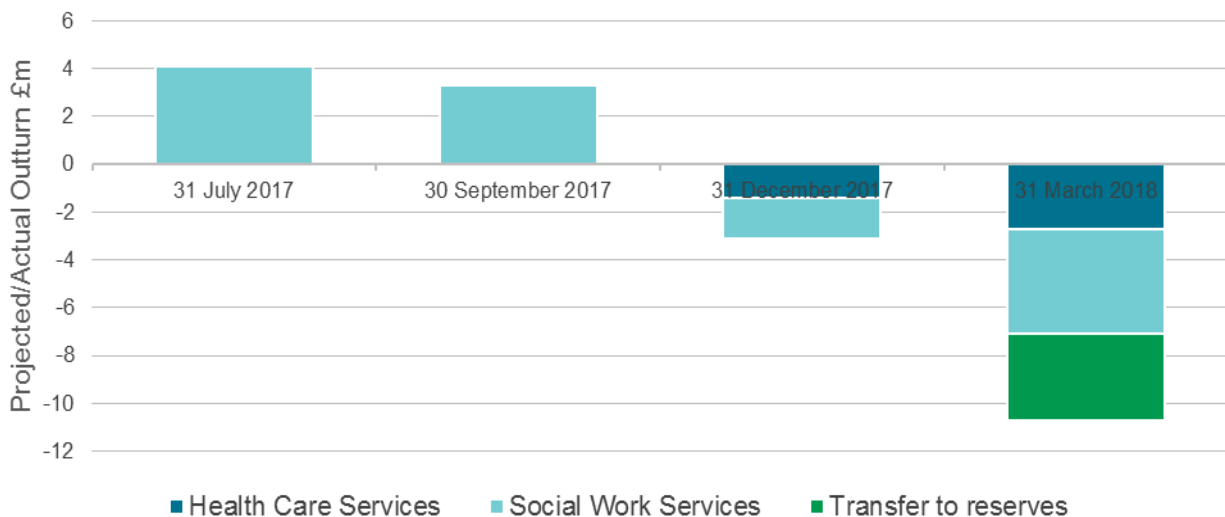
31. The financial position projected throughout 2017/18 is shown in [Exhibit 4](#) below. There was an improvement in the forecast position from the beginning of the year to the final outturn for the year. Early reporting in NHS Lanarkshire identified an underspend to the end of quarter 1 of £0.3 million (which might suggest a potential year end position of £1.2 million) and North Lanarkshire Council projected an initial overspend of £4.1 million. The actual outturns were underspends of £2.7 million and £4.4 million. A swing of £10 million (from £2.9 million overspend to £7.1 million underspend). Based on the total annual budget of £570 million, this is less than a 2% variation and isn't unreasonable, but the Chief Financial Officer acknowledges that financial management still needs to improve further. The final outturn includes a net transfer to reserves of £3.6m. This relates to expenditure committed by the partner bodies in the year but unspent at the year end. These amounts were not shown as an underspend in the financial monitoring reports throughout the year. The NLIJB Chief Financial Officer is responsible for the financial management, administration and governance of the IJB and has agreed to work with both partners to harmonise and further improve the financial monitoring arrangements and the accuracy of the projected outturns.



[Recommendation 3 \(refer appendix 1, action plan\)](#)

Exhibit 4

Comparison of NLIJB's projected outturn for the year against the final outturn for 2017/18



Source: Financial Monitoring Reports taken to NLIJB

32. Within the underspend of £10.7 million the most significant variance in the year occurred in social work services. As a result of an identified overspend of £4.1 million in the first quarter a financial recovery plan was implemented. The two most significant factors contributing to the underspend were management action to reduce employee costs (e.g. vacancy control and management of overtime) and an underspend across self-directed support services.

Reserves strategy

33. At 31 March 2018, NLIJB held reserves of £18.2 million. Of this amount £13.4 million has been earmarked and £4.4 million remains as a contingency.

34. NLIJB does not have a reserves strategy in place that sets out a minimum balance that should be held. This is not currently an issue as the general fund balance is healthy, although it may be something for the IJB to consider going forward.

35. NLIJB reserves are represented by debtors balances due from NHS Lanarkshire and North Lanarkshire Council of £7.1m and £11.1m respectively. As the reserve position of the IJB represents 3% of NLIJB budgets, the IJB should consider developing a reserves strategy that includes reporting the purpose and expected future periods that earmarked funds will be used annually to committee. Members of the IJB are provided with descriptions of the use of funds to be earmarked but there is no detail on the amounts and timing of associated cashflows. This will also help the two host organisations manage the future cashflow implications and assist them when preparing medium and long term financial plans.

36. Members of the IJB were only required to formally approve £3.1m (or 26 per cent) of the funds earmarked in the year. The IJB previously delegated authority to the Chair, Vice-Chair and Chief Accountable Officer to transfer funds up to £250,000. A large proportion of the funds (£5.2m) relate to amounts committed to the partner bodies in budgets but unspent at the year end. Following consultation with the NLIJB Chief Financial Officer, it was agreed that these funds would be treated as a transfer to the NLIJB reserves. The partner could not accrue the expenditure in the year and the alternative would have been for the partner to transfer these funds to their own reserves and earmark them to fund the originally agreed commitments for the IJB. Members should satisfy themselves that they have sufficient information to scrutinise all the earmarked reserves held by the IJB.



Recommendation 4 (refer appendix 1, action plan)

Financial planning

37. The financial budget for 2018/19 has been approved and it recognises the immediate challenges ahead. Cost pressures of £20 million have been identified and additional funding of £10 million has been agreed with host bodies. This leaves a funding gap of £10 million. The plans to address this include:

- Base budget adjustments (£0.9 million)
- Proposed savings (£6.3 million)
- Prescribing savings (£0.8 million)
- Management actions including targeted reduction of cost pressures and vacancy control (£0.3 million)
- Implementation of the Integrated Services Review Programme (ISRP) recommendations (£0.3 million)
- Use of non-recurring underspends (£1.4 million).

38. In March 2018, specific management actions totalling £0.6 million were still to be confirmed. Reliance was also being placed on the use of underspends totalling £1.4 million on a non-recurring basis. The NHS Lanarkshire savings were reported in detail to the NLIJB on 5 June 2018.

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.

39. In 2016/17 we reported that NLIJB should develop medium to long term financial plans based on demand and resource assumptions using sensitivity analysis and scenario planning. The Chief Financial Officer took a report to the Performance, Finance and Audit Committee in March 2018 that outlines progress with this. The report explains the work that has taken place at each of the partner bodies to gather the required information. The Chief Financial Officer has also prepared a high level estimate of cost pressures in 2019/20 but this is yet to be documented in a financial strategy or detailed plan.



[Recommendation 5 \(refer appendix 1, action plan\)](#)

Systems of internal control

40. 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.

41. As part of our audit approach we sought 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 for the health board. For the weaknesses identified within the payroll system at the council the audit procedures were adapted by the external auditor to enable the required assurances to be obtained.

Part 3

Governance, transparency and value for money



Main judgements

The IJB has reviewed its governance arrangements in 2017/18 and identified areas for improvement.



Reports by inspectorates have been positive. Areas of good practice include the clear and ambitious vision to deliver positive outcomes for its communities, sound strategic planning and a strong partnership with voluntary sector organisations.

The annual performance report for 2017/18 omitted information about financial performance analysed by locality required by the Regulations.

Governance arrangements

42. The board carried out a self-assessment of its governance arrangements during the year. The results of this have been summarised in NLIJB's annual governance statement. Areas for improvement have been identified and cover the following areas:

- Financial planning and reporting (including improvements to financial reporting and the creation of a medium/long term financial strategy)
- Performance management (including a review of performance targets/outcomes and the sustainability of services)
- Governance arrangements (including plans to embed the governance framework and provide ongoing support and personalised development)
- Implementation of national agreement and new legislative duties (including GMS 2018 contract and Carers (Scotland) Act 2016).

43. In December 2017, the board took the decision to merge the Finance and Audit Sub-Committee and the Performance, Scrutiny and Assurance Sub-Committee. The new Performance, Finance and Audit Committee is made up of 4 voting members appointed by NLC, 4 voting members appointed by NHSL and 3 non-voting members.

44. The Care Inspectorate and Health Improvement Scotland carried out their first joint inspection into the effectiveness of strategic planning and commissioning of health and social care services for all adults in the North Lanarkshire Partnership. Their findings were published in February 2018. The inspection covered the leadership of the IJB and concluded that strong foundations are being laid down to support more integrated working. It also reported positive relationships between and across voting members and chief officers, with a shared undertaking to work together to achieve desired outcomes. Our observations at board and committee meetings support this.

45. The arrangements in place continue to support good governance and accountability.

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.

Transparency

46. Transparency means that the public has access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using resources.

47. All committee and board meetings are held in public and a notice of this is placed on the council website in advance. Access is given to all committee papers and minutes of meetings.

Internal audit

48. 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. Both 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.

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

49. In 2016/17 we reported on NLIJB's arrangements for the prevention and detection for fraud and bribery and concluded that they were effective.

50. A new process is going to be introduced for maintaining registers of interests, where members will be asked every six months if there are any changes to the information that is held. This change to request a positive confirmation on a regular basis will further improve the procedures in this area.

Value for money and performance management

51. Best Value duties apply to accountable officers across the public sector. One of the key mechanisms for NLIJB ensuring Best Value is through the work of the Resource Planning Group and the Good Governance Group. These groups consist of the Health and Social Care Senior Management Team. They lead and monitor various workstreams including workforce planning, IT, the integrated services review and governance arrangements.

52. The Board receives performance reports on a quarterly basis. These reports highlight performance indicators that have been marked as red or amber and identify the corrective action that has been agreed by the Chief Accountable Officer and the partner bodies' Chief Executives at their quarterly performance review meeting.

53. The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. NLIJB published an annual audit report within this timescale.

54. We have reviewed the annual performance report for 2017/18 and identified that it does not fully comply with the prescribed content set out in The Public Bodies (Joint Working) (Scotland) Act 2014 (Content of Performance Reports)(Scotland) Regulations 2014 in respect of financial information. The Regulations require information about financial performance analysed by locality. The Chief Financial Officer is committed to improving financial reporting and this will be reflected in future reports.

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



[Recommendation 6 \(refer appendix 1, action plan\)](#)

National performance audit reports

55. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18 we published some reports which are of direct interest to the Board as outlined in [Appendix 3](#).

56. In November 2018 we will publish our second national report looking at the integration of health and social care. Now that integration authorities are more established, this report will look at progress and follow up on the risks identified in our first report. The audit will also examine changes to the system, including evidence of shifts in service delivery from acute to community based and preventative services, and the impact on the lives of local people.

Good practice

57. The Care Inspectorate and Health Improvement Scotland reported the establishment of the integrated service review board (ISRB) in March 2017 as an example of good practice and an innovative approach to addressing local challenges. The remit of the ISBR was to review all services within the partnership with a view to optimising the use of all available resources and coordinate developments on a whole system basis. The implementation of the findings from this review is one of the IJB's commissioning intentions for 2018/19.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Hosted Services</p> <p>The NLIJB Financial Regulations do not set out the arrangements for the management of financial resources for hosted services. The accounting policy is clear that the host is responsible for managing the overspends and underspends on these services and this is how the hosted services are being managed in practice.</p> <p>Risk</p> <p>There is a lack of clarity in the NLIJB Financial Regulations with the potential for disagreement in the future.</p>	<p>The NLIJB Financial Regulations should set out the arrangements that exist in practice for the management of financial resources for hosted services.</p>	<p>The NLIJB Financial Regulations will be reviewed and updated to reflect the treatment in practice of overspends and underspends on hosted services.</p> <p>December 2018</p>
2	<p>Financial Reporting - timing</p> <p>There have been no financial monitoring reports on the 2018/19 budget between April and July 2018. This is consistent with previous years, with information on the IJB spend unavailable to members in the first 5 months of the year.</p> <p>Risk</p> <p>Members are unable to scrutinise financial monitoring reports and any corrective actions during the first five months of the financial year.</p> <p><i>This issue was reported in 2016/17 but has been updated.</i></p>	<p>NLIJB's Financial Regulations set out that quarterly budget reports will be presented to the IJB within two months of the end of the quarter. Action should be taken to bring this forward.</p>	<p>On 1 August 2018, a financial monitoring report was presented to the NL Performance, Finance and Audit Committee for the period from 1 April 2018 to 30 June 2018 (Health Care Services) and 22 June 2018 (Social Work and Housing Services).</p> <p>The NLIJB Financial Regulations will be reviewed and a revised reporting timetable agreed to bring forward the presentation of the financial monitoring reports to the NLIJB. The timing of the NLIJB meetings will also require to be considered as part of this review.</p> <p>December 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Financial Reporting – accuracy</p> <p>The outturn financial projections moved by £10 million from the beginning of the year to the final outturn position and the Chief Financial Officer recognises that further improvements could be made to the accuracy of budgetary control procedures.</p> <p>Risk</p> <p>The value of the budget reporting process is undermined if it is not a good indicator of the year end outturn.</p> <p><i>This issue was reported in 2016/17 but has been updated.</i></p>	<p>The NLIJB Chief Financial Officer is responsible for the financial management, administration and governance of the IJB.</p> <p>NLIJB should continue to work with its partner bodies to improve the quality of the information on which it bases its budget and financial monitoring reports.</p>	<p>In order to further improve the accuracy of the projected outturns, the financial monitoring arrangements followed by each partner will be reviewed by the Chief Financial Officer in order to harmonise accounting practices. This will include an assessment of the adjustments to the period end financial ledger balances.</p> <p>March 2019</p>
4	<p>Earmarked Reserves</p> <p>The information provided to members on earmarked reserves does not include detail on the amount and timing of the cashflows. There are also a large proportion of the earmarked reserves that were not subject to member approval.</p> <p>Risk</p> <p>Members may not be clear on the purpose of earmarked funds held by the IJB and when the costs will be incurred and this may affect the accuracy of medium/long term planning.</p>	<p>NLIJB should review the information provided on earmarked reserves to ensure it can effectively scrutinise their planned use annually.</p> <ul style="list-style-type: none"> • The purpose should be clear • The amount and timing of future cashflows should be defined • It should be subject to appropriate approval/scrutiny. 	<p>The Chief Financial Officer will further develop the reporting protocols in respect of the reserves in order to comply with Audit Scotland's good practice guidance.</p> <p>This will include clarification of the accounting treatment of underspends by each partner, the reporting requirements to the NLIJB and the transparency of ongoing compliance with the IJB's original directions.</p> <p>December 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p>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><i>This issue was reported in 2016/17</i></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>The medium to long term financial plan for the NLIJB will be finalised and will take into consideration the five year financial plan for NHS Health Boards which is expected to be published in September 2018.</p> <p>February 2019</p>
6	<p>Annual Performance Report</p> <p>We reviewed the contents of 2017/18 annual performance report and found that the financial information does not fully comply with the 2014 Regulations.</p> <p>Risk</p> <p>NLIJB is not fulfilling its responsibilities in relation to public performance reporting.</p>	<p>The contents of the annual performance report should be improved to include information about financial performance analysed by locality.</p>	<p>The Annual Performance Report 2018/2019 will include financial information by locality and an assessment of activities to deliver best value.</p> <p>July 2019</p>
Follow up of prior year recommendations			
b/f	<p>Hospital Acute Services (Set Aside)</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>A notional figure has been agreed and included in the 2017/18 financial statements. This is based on 2015/16 activity levels uprated to reflect 2017/18 prices.</p> <p>This reflects revised guidance from the Scottish Government issued on 21 February 2018 in connection with Large Hospital Services and Set Aside Budgets for 2017-18</p>
b/f	<p>Financial monitoring report improvement</p>	<p>Financial monitoring reports should be reviewed to ensure that they include reliable financial projections.</p>	<p>Refer to recommendation 3 in this action plan.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	2017/18 Budget	The budget reports for 2017/18 should be reported to the Board timeously.	Refer to recommendation 2 in this action plan.
b/f	Medium to Long term Financial Plans	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).	Refer to recommendation 5 in this action plan.

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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We reviewed significant accounting estimates and did not identify any issues.</p> <p>We reviewed the process, accuracy and completeness of consolidating the financial reports from the two host bodies.</p> <p>We obtained written assurances from the external auditors of North Lanarkshire Council and NHS Lanarkshire on the completeness, accuracy and allocation of the income and expenditure transactions of NLIJB. No issues were noted.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>2 Financial Planning</p> <p>Robust financial planning should include a range of scenarios to support the identification and delivery of required savings to ensure longer term financial sustainability. There is a risk that future service delivery is impacted without this longer term perspective being adopted.</p>	<p>Review the development of medium / long term financial planning.</p>	<p>Held discussion with the Chief Financial Officer and reviewed relevant papers to determine the status of the medium/long term financial plan.</p> <p>The NLIJB Chief Financial Officer and the partner bodies have progressed the development of a medium to long term financial plan. Although work has taken place to obtain the necessary information, this has not yet been reported to the NLIJB. This continues to be a priority for the Chief Financial Officer.</p> <p>Refer to Recommendation 5, Appendix 1.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Financial Reporting</p> <p>The financial reporting process has been improved in year, however there is still a risk that the new reports may not reflect the actual year end position as this is the first time that the NHS have provided year end outturn estimations.</p>	<p>Review the year end outturn against the budget reports throughout the year.</p>	<p>There was a £10 million positive movement in the forecast position from the first quarter in the year to the final outturn. Part of this was the result of a financial recovery plan adopted in social work services to rectify the forecast overspend. NHSL only provided a year end forecast from the end of December 2017. Further improvement is required.</p> <p>Refer to Recommendation 3, Appendix 1.</p>
<p>4 Hospital acute services (set aside)</p> <p>The “set aside” budget is the Integration Joint Board’s share of the budget for delegated acute services provided by large hospitals on behalf of the Joint Board. The budget and actual expenditure reported for the “set aside” were equal in 2016/17. The amount set aside, was based on 2014/15 activity levels and provided by NHS National Services Scotland’s Information Services Division.</p> <p>There is a risk that the income and expenditure is misstated due to the lack of current activity information.</p>	<p>Engage with officers to ensure that a robust mechanism has been developed to quantify North Lanarkshire Integration Joint Board’s set aside income and expenditure.</p> <p>Monitor Scottish Government guidance on the treatment of set aside in the 2017/18 financial statements to establish whether the financial statements are compliant.</p>	<p>The set-aside figure in the 2017/18 accounts is based on 2015/16 activity levels uprated to reflect the 2017/18 price basis and adjusted for the transfer of agreed activity out to the community during 2017/18.</p> <p>We obtained assurance from the external auditors of NHS Lanarkshire that the calculation of the set-aside figure included in the 2017/18 financial statements was reasonable and in line with Scottish Government guidance.</p>

Appendix 3

Summary of national performance reports 2017/18



2017/18
Reports

		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	Scotland's colleges 2017
		Jul	NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Reports relevant to Integration Joint Boards

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[NHS in Scotland 2017](#) – October 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

North Lanarkshire Integration Joint Board

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