

North Lanarkshire Integration Joint Board

2019/20 Annual Audit Report



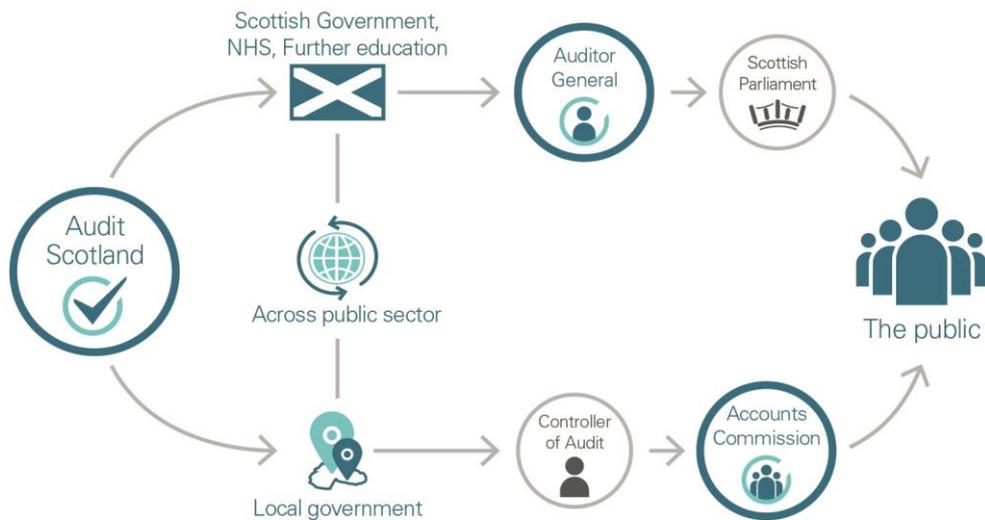
 AUDIT SCOTLAND

Prepared for North Lanarkshire Integration Joint Board and the Controller of Audit
September 2020

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

2019/20 annual report and accounts

- 1 Our audit opinions on the annual accounts are all unmodified.
- 2 Despite the disruption arising from Covid-19 the accounts were submitted and audited in line with our agreed audit timetable and we were able to conduct our audit remotely.

Financial management and sustainability

- 3 The 2019/20 budget was balanced and the IJB reported a surplus of £0.4 million, which was better than anticipated.
- 4 During 2019/20 the budget was adjusted by £21 million to reflect the revised integration scheme, but further work is required to disaggregate cross-cutting services by the end of September 2020.
- 5 The 2020/21 budget approved in March 2020 was not fully balanced and included £3.5 million of unidentified savings.
- 6 The financial impact of Covid-19 in 2019/20 was limited but additional costs of £9.4 million were incurred in the first quarter of 2020/21 and budgets will need to be reviewed.
- 7 The IJB now has a medium to long term financial plan but this will need to be updated due to Covid-19.

Governance, transparency and best value

- 8 Overall governance and transparency arrangements were effective, and arrangements are in place to secure best value.
- 9 Performance reporting has been disrupted due to Covid-19, there is a significant increase in delayed discharges and the IJB is focussing on this area.

Introduction

1. This report is a summary of our findings arising from the 2019/20 audit of North Lanarkshire Integration Joint Board (the IJB).

2. The scope of our audit was set out in our Annual Audit Plan communicated to members of the Audit and Risk Committee meeting in February 2020. This report comprises the findings from our main elements of work in 2019/20 including:

- an audit of the IJB's 2019/20 annual accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions that frame the wider scope of public audit in the [Code of Audit Practice 2016 \(Exhibit 1\)](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the IJB and partner bodies have had to respond to the global coronavirus pandemic. For the financial year 2019/20, only the final few weeks were affected, however the effects will have significant impact into 2020/21. We have carried out our planned audit work remotely to comply with travel restrictions and physical distancing.

Adding value through the audit

4. We add value to the IJB, through audit, by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. 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.

Responsibilities and reporting

6. The IJB 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. 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.

7. 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.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements
- the suitability and effectiveness of corporate governance arrangements
- the financial position and arrangements for securing financial sustainability.

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

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £26,560, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. 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 in due course.

15. 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 2019/20 annual accounts



Main judgements

Our audit opinions on the annual accounts are all unmodified.

Despite the disruption arising from Covid-19 the accounts were submitted and audited in line with our agreed audit timetable.

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

Our audit opinions on the annual accounts are unmodified

16. The annual accounts for the year ended 31 March 2020 were approved by the IJB on 22 September 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

Despite the challenges of Covid-19 the annual accounts were submitted for audit on time

17. We received the unaudited accounts on 10 June 2020 in line with our agreed audit timetable. The IJB did not need to use the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to postpone publication.

18. The IJB does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer and Chief Financial Officer. All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounts. Satisfactory arrangements are in place to identify this income and expenditure and report this to the IJB.

19. Audit Scotland's [Covid-19: Guide for audit and risk committees \(August 2020\)](#) recommends that members consider whether there is sufficient capacity to deal with competing pressures, such as preparing annual accounts, at a time when working practices are having to be adapted due to Covid-19.

20. Overall, the working papers provided to support the accounts were of a good standard and we were given electronic access and so were able to conduct the audit remotely.

Overall materiality is £6 million

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement in the annual accounts.

22. On receipt of the unaudited annual accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality levels

| | |
|--------------------------------|------------|
| Overall materiality | £6 million |
| Performance materiality | £4 million |
| Reporting threshold | £200,000 |

Source: Audit Scotland, 2019/20 Annual Audit Plan

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks that we identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

We have one significant finding to report from the audit

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant finding is outlined in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

1. Budget realignment: transfer of children, families and justice social work services back to North Lanarkshire Council

The integration scheme was revised from 1 April 2019 to transfer the discretionary delegated functions for children, families and justice social work services back to North Lanarkshire Council. An exercise is ongoing to align the finances with the revised integration scheme over an 18-month period. In 2019/20, this resulted in £21 million of expenditure clearly identifiable with these services being transferred out during the year. The work to further disaggregate budgets is ongoing as some services affect both delegated and non-delegated services. Work to date indicates a further £15.6 million will be transferred out of the 2020/21 budget.

Internal audit carried out a review of the disaggregation exercise and provided assurance on the £21 million transfer in year.

The annual governance statement outlines actions to complete the exercise, which include:

- the conclusion of the budget disaggregation exercise for the transfer of the remaining cost centres and their resultant budgets
- the finalisation of the service level agreement including the arrangements for those services with a 'cross cutting function'
- the issue of a revised direction to reflect the 2020/2021 financial allocations.



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

Qualitative aspects of the audit

25. The annual accounts include a significant accounting estimate in respect of the amount set aside for large hospital services. The set aside amount in the 2019/20 annual accounts is £61 million. This figure was updated during the year following receipt of the validated 2017/2018 activity levels from the Information Services Division (ISD). The original set aside amount approved as part of the 2019/20 IJB financial plan was £58 million. NHS Lanarkshire is responsible for managing any overspends on the set-aside budget. The estimated expenditure is matched by an equivalent funding contribution so there is no impact on the IJB's outturn. We received assurances from the auditor of NHS Lanarkshire that the estimation basis used in 2019/20 was appropriate.

There were no material adjustments to the unaudited accounts

26. There were no material adjustments to the unaudited accounts arising from our audit.

Good progress has been made with the implementation of prior year recommendations

27. The IJB has made good progress in implementing our prior year audit recommendations. Five of the seven recommendations are now complete. For actions not yet implemented, revised responses and timescales have been agreed with management. These are set out in [Appendix 1](#).

Part 2

Financial management and sustainability



Main judgements

The 2019/20 budget was balanced and the IJB reported a surplus of £0.4 million, which was better than anticipated.



In year financial monitoring reports should be further improved by being earlier and by including forecast outturns.

During 2019/20 the budget was adjusted by £21 million to reflect the revised integration scheme, but further work is required to disaggregate cross-cutting services.

The 2020/21 budget approved in March 2020 was not fully balanced, with £3.5 million of unidentified savings.

The financial impact of Covid-19 in 2019/20 was limited, but additional costs of £9.4 million were incurred in the first quarter of 2020/21 and budgets will need to be reviewed.

The IJB now has a medium to long term financial plan but this will need to be updated due to Covid-19.

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

The 2019/20 budget was balanced and relied on planned savings and use of reserves to address a £7 million funding gap

28. The 2019/20 financial plan was approved by the IJB on 26 March 2019. Identified cost pressures of £25 million were offset by additional funding of £18 million from partner bodies, leaving a funding gap of £7 million. A range of specific plans were put in place to address the gap, including agreed savings (£4m), base budget adjustments (£1m) and use of reserves (£2m).

The budget was reduced by £21 million in year to reflect the revised integration scheme

29. During the year the budget was reduced by £21 million to align with the transfer of discretionary children, families and justice social work services back to North Lanarkshire Council from 1 April 2019. Internal audit carried out a review to determine whether these adjustments were appropriate, and we were able to place formal reliance on this work. The audit was categorised as offering 'adequate assurance' and they found that the £21 million transferred in year was transparent and reflective of the services being transferred, known existing budgetary pressures and savings targets.

The arrangements for some cross-cutting services had not been agreed by the year end

30. Internal audit also identified the need for management to agree and process the transfer of remaining budgets for those services with a cross-cutting function, to be hosted by either the IJB or North Lanarkshire Council (Education and Families). This exercise was not completed by the year end and so the income and expenditure relating to these services is still included in the 2019/20 IJB annual accounts.

31. There was mutual agreement between parties that the operational and financial risks of the discretionary services would be jointly managed until the transfer of responsibilities was concluded over an 18-month period to September 2020. This included the IJB retaining the budgets whilst the arrangements for some of the more complex cross-cutting services was explored. The detail of the arrangements is still to be finalised and this is recognised in the IJB's annual governance statement. Information to date indicates that a further transfer of £15.6 million from the IJB budget in 2020/21 is likely.



Recommendation 1

The IJB should continue to monitor progress against the transfer of children, families and justice services.

The IJB reported a surplus of £0.4 million, which was better than anticipated

32. The expenditure from reserves is not included in the outturn shown in financial monitoring reports. Therefore, the reported outturn in budgetary reports is not directly comparable with the annual accounts. In response to a recommendation in our 2018/19 annual audit report, a reconciliation between the position in the financial monitoring report and the general fund is now included within each financial monitoring report.

33. The IJB used reserves balances of £6.1 million, in the year, to fund planned expenditure. This is the main difference between the financial monitoring report (showing an underspend of £6.5 million) and the annual accounts surplus of £0.4 million, as the latter is stated before reserves movements in accordance with accounting standards.

34. The financial monitoring report to the end of December 2019 forecast an underspend for the year of £0.1 million. This developed into a £6.5 million underspend in the final quarter, which is a notable change on earlier forecasts, but represents only 1% of total expenditure. The reasons for this are outlined at paragraph 35. However, there is still scope to improve the timing and accuracy of year end forecasts to ensure that the budget can be effectively managed and reported ([see recommendation 2](#)).

35. Financial monitoring reports explain the £6.5 million variance from budget in the year, including:

- A £2.9 million underspend on staff costs in health care services because of a higher than anticipated level of vacancies. The average vacancy rate against the funded establishment was 5%, which is within NHS Lanarkshire's vacancy tolerance level. This is an unplanned non-recurrent saving.
- There was also a net underspend of £0.9 million on prescribing costs. Prescribing expenditure was estimated to increase due to COVID-19 but the effect in March 2020 was offset by underspends in previous months.

This remains a volatile area and the IJB holds an earmarked fund of £3.8 million to protect against this.

- Services hosted by North Lanarkshire IJB reported a net underspend of £1.6 million. Most of this relates to various non-pay related underspends (e.g. drugs, training, travel, equipment) in mental health and learning disability services. Smaller underspends were reported in some other areas including addiction services and area wide services.
- In social work services, an overspend of £1.2 was offset by an over recovery of income of £1.3m. The majority of this relates to historic costs recovered for providing care services for another local authority. Again, this can be considered an unplanned non-recurrent saving.
- £1.6 million was drawn down from a reserve created to protect against the financial risk of social care demand pressures. This included £0.8m which was unspent at the year end and has been carried forward to 2020/21 in two earmarked reserves relating to adaptations and the Carers Act.

The IJB achieved 81% of its planned savings in the year

36. The IJB agreed £4.7 million of recurring savings as part of the 2019/20 budget setting process in March 2020. This included £3.3 million in social care services and £1.4 million in health care services. Undelivered savings include a reduction in the number of external care home placements (£0.6 million) and a review of the eligibility criteria for social work support (£0.3 million). The first has been impacted by a lower rate of discharge than expected and the review of eligibility criteria will be revisited as part of the medium-term financial planning process.

The financial impact of Covid-19 on the IJB in 2019/20 was limited

37. In March 2020, the IJB incurred some additional costs due to the Covid-19 pandemic. This included £0.1 million for personal protective equipment (PPE) in social care services and £1.2 million on health care services, including prescribing, the community assessment centre and GP support costs. These were absorbed within existing budgets.

Financial monitoring arrangements should be further improved

38. A financial monitoring report was taken to each meeting of the IJB and Performance, Finance and Audit Committee throughout the year. The first of these covered the period to July 2019 and was presented in August 2019. The timing of this is in accordance with the IJB's financial regulations. The IJB relies on information from partner bodies to produce its financial monitoring reports.

39. We have previously reported that NHS Lanarkshire does not routinely provide financial projections to the year end, meaning that the IJB is unable to forecast an accurate year-end position. In 2019/20, the first forecast was provided for health care services at the end of quarter three (to December 2019) and the actual outturn was £4 million better than projected at this time. The timing of reports and the lack of earlier reporting / better financial forecasts does not help the IJB fully manage its financial position.



Recommendation 2

The CFO should continue to work with partners to improve the timing of financial reporting and outturn forecasts.

40. The integration scheme sets out services that are provided by North Lanarkshire Integration Joint Board on behalf of South Lanarkshire. The IJB

formally agreed its approach for managing 2019/20 underspends / overspends on hosted services at its meeting in September 2019. The agreed arrangement is that the lead partner for a hosted service is responsible for managing any overspends incurred and, except for ring-fenced funding, will be able to retain any underspends. There is currently no formal agreement in place for subsequent years and so there is a risk that this becomes an area of dispute.



Recommendation 3

The IJB should set out the arrangements that exist in practice for the management of financial risk for hosted services on a permanent basis.

The IJB approved the 2020/21 budget in March 2020 and this was not fully balanced, with unidentified savings of £3.5 million. The budget will need to be further reviewed due to Covid-19.

41. The IJB approved a budget of £665 million for 2020/21 on 24 March 2020. The budget included a funding gap of £9.4 million, made up of cost pressures of £30.4 million offset by additional contributions from partner bodies of £21 million. Plans to bridge the funding gap include:

- Identified savings (£3.5 million)
- Implementation of a charge for the community alarm service (£1.4 million)
- Use of contingency reserves (£0.8 million)
- Base budget adjustments (£0.2 million).

42. Plans to address the remaining £3.5 million were not in place at the time the budget was set. This indicates that the budget was not fully balanced and increases the risk that mitigating actions will not be identified and delivered in year.

43. The Chief Financial Officer has advised the IJB that the budget is likely to be subject to significant revisions in the future as the impact of Covid-19 becomes clearer. A mid-year review of the financial planning assumptions considering the 2019/20 outturn and Covid-19 is planned for October 2020.



Recommendation 4

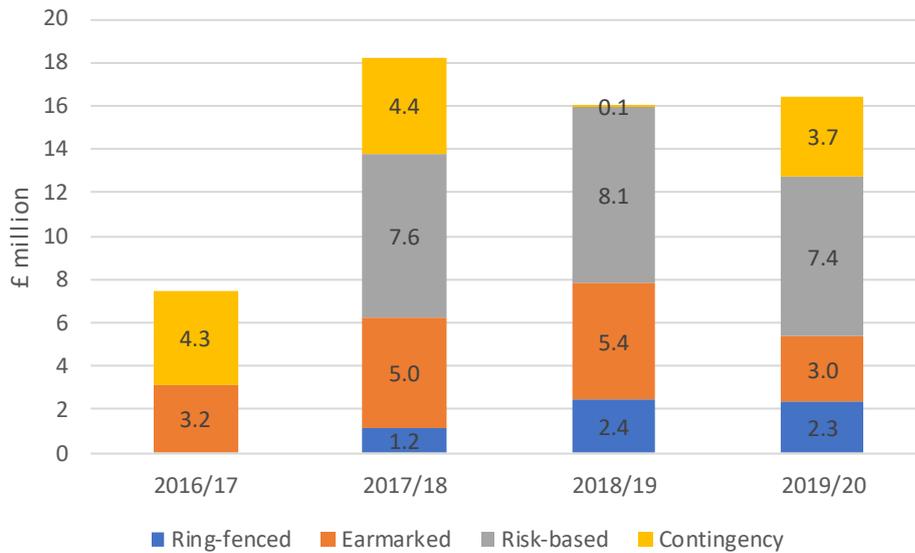
The 2020/21 budget should be reviewed due to Covid-19 and actions identified to ensure the revised budget is balanced.

The general fund balance is £16.4 million, and the contingency reserve has been increased to £3.7 million

44. [Exhibit 4](#) provides an analysis of the IJB's general fund balance over the last four years. In 2018/19 we reported that the draw down and re-allocation to other reserves from the contingency reserve left virtually no contingency reserve for future years. A contingency reserve is necessary to cushion the financial impact of unexpected events. The 2019/20 reserves strategy recognised that the balance of £53,000 held at 31 March 2019 was not enough to do this. Due to the favourable outturn position in 2019/20 the IJB agreed to transfer £2.8 million of the underspend to the contingency reserve. When added to the £0.9 million sitting in this reserve from a decision taken earlier in the year, the total balance on this reserve is £3.7 million.

Exhibit 4

Analysis of the general fund over the last four years



Source: North Lanarkshire IJB Annual Accounts 2016/17 to 2019/20

Net additional costs of £9.4 million have been incurred in the first quarter of 2020/21 due to Covid-19

45. Between April and June 2020, the IJB has incurred net costs of £9.4 million as a result of Covid-19. This does not take account of additional funding. The Scottish Government has allocated total additional funding of £7.2 million to North Lanarkshire IJB to date to cover the financial impact of Covid-19. Future further funding is uncertain at this stage.

46. A pan-Lanarkshire health and social care recovery group has been formed. This group feeds into both NHS Lanarkshire and North Lanarkshire Council's Covid-19 redesign and recovery groups. These groups exist to provide effective governance and oversight of the redesign and recovery process. They will review the response to Covid-19 including what has worked well, what has not worked so well, and seek to identify new ways of working. Some benefits identified from the pan-Lanarkshire recovery group's review of the emergency response so far include:

- Rapid change, including digital solutions (e.g. virtual consultations)
- Retrained and redeployed staff
- More focus on whole system working
- Reduced numbers attending accident and emergency
- Improved levels of self-management by patients and carers.

The IJB now has a medium to long term financial plan but this will need to be updated due to Covid-19

47. In our previous annual audit reports we have highlighted the importance of medium- and long-term financial planning. The IJB has responded well to this and now has a medium to long term financial plan that covers the period from 2020/21 to 2029/30.

48. The plan includes scenario planning on an optimistic, envisaged and pessimistic basis across the life of the plan. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth. Other key areas of the plan include the national and local context, reserves strategy, financial sustainability and key risks and uncertainties.

49. The CFO recognises that both Covid-19 and EU withdrawal present a significant risk to the accuracy of the financial planning assumptions adopted. Some of the uncertainty relating to EU withdrawal includes the impact on supply chains (particularly in relation to prescribing), the labour market and alternatives to EU funding. The financial plan will need to be updated as more information becomes available.



Recommendation 5

The IJB's medium to long term financial plan should be reviewed due to the impact of Covid-19 and EU withdrawal.

The host bodies have sound systems of internal control in place

50. The IJB does not have any financial systems of its own, instead it relies upon the financial systems of the host bodies to record all transactions.

51. 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 significant weaknesses in the systems of internal controls for the health board and the council.

The joint internal audit arrangements will be reviewed

52. Internal audit is provided by North Lanarkshire Council and NHS Lanarkshire. As part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

53. We planned to place reliance on the internal audit review of the budget disaggregation for the transfer of children, families and justice social work services back to North Lanarkshire Council. This work was completed in good time and our detailed review of the work concluded that we were able to place reliance on this work for our financial statements audit. This is described in more detail at paragraph [29](#).

54. Staff absence within the NHS Lanarkshire internal audit team meant that the planned risk assurance mapping exercise was not completed in year. Also, the internal audit opinion that was presented to the IJB on 26 May 2020 was provided by the Audit and Risk Manager of North Lanarkshire Council, rather than on a joint basis. The IJB's governance statement identifies an improvement action to review the joint internal audit arrangements.

The host bodies have appropriate arrangements for the prevention and detection of fraud and error

55. The IJB does not maintain its own policies relating to the prevention and detection of fraud and error but instead depends on those in place at its partnership bodies. The IJB uses the financial systems of NHS Lanarkshire and North Lanarkshire Council and so anti-fraud arrangements are the responsibility of these organisations. We have received assurances from the auditors of NHS Lanarkshire and North Lanarkshire Council (in accordance with ISA 402) and have no issues to bring to your attention.

Part 3

Governance, transparency and best value



Main judgements

Overall governance and transparency arrangements were effective.



Good progress has been reported against the improvement actions identified from the integration review and self-assessment processes carried out in 2019.

Performance reporting has been disrupted due to Covid-19, there is a significant increase in delayed discharges and the IJB is focussing on this area.

Arrangements are in place to secure best value.

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

Overall governance and transparency arrangements were effective

56. The IJB is supported by a Performance, Finance and Audit Committee. The integration scheme sets out the governance arrangements for membership of the IJB. Our observations at committee meetings throughout the year has found that these are conducted in a professional manner and there is a good degree of scrutiny and challenge by members.

57. Full details of the meetings held by the IJB are available on North Lanarkshire Council's website. Committee papers and minutes of meetings are publicly available, and members of the public are permitted to attend and observe meetings. Public notice of each meeting is given on the council's website.

The governance arrangements changed in response to Covid-19

58. The impact of Covid-19 on governance arrangements from March 2020 has been set out in the governance statement that forms part of the IJB's annual accounts. The following adjustments were made to normal arrangements:

- The IJB and Performance, Finance and Audit Committee meetings were held virtually from March 2020 and so public access was restricted. This was essential to protect public health and comply with physical distancing guidelines. Agendas, papers and minutes continued to be available on the North Lanarkshire Council website.
- Meetings of the IJB continued in line with the original timetable. Meetings of the Performance, Finance and Audit Committee were impacted, with the February 2020 meeting cancelled due to ill-health and the May 2020 and August 2020 meeting dates replaced by a special meeting on 1 July 2020. Papers for the February 2020 meeting were publicly available and circulated to members for scrutiny, with questions and answers submitted via e-mail.

- Meeting agendas were restricted to core business (decision making) to minimise the impact on officers' time, allowing them to focus on critical business.

59. Overall, the changes to governance arrangements were reasonable and no specific risks have been identified.

Good progress has been made against the integration review and self-assessment processes carried out in 2019

60. During 2019, the IJB undertook a detailed review of integration based on themed workstreams (finance, IT, strategic planning, governance, workforce planning, performance and operations) and a structural review. The IJB also used the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, [Health and social care integration: update on progress](#), and the [Review of Progress with Integration of Health and Social Care](#) report by the Ministerial Strategic Group for Health and Community Care.

61. Initial findings were reported in June 2019 and an update against the improvement action plan was reported in November 2019 and February 2020. The recommendations cover: leadership, operational structure, finance, strategic planning, governance, information sharing and engagement. Twenty-eight out of thirty-eight improvement actions were marked as completed in February 2020 with the remaining ten delayed or in progress. Two of the outstanding actions relate to the finance workstream. This includes a review of the support arrangements for the Chief Financial Officer and the link between strategic and operational finance. The Chief Officer and Chief Financial Officer have advised that these actions will be progressed in 2020/21.

62. Internal audit reported on the progress of improvement actions identified in June 2020 as part of their planned audit work for North Lanarkshire Council. Their audit provides 'reasonable assurance' and found that reports have been presented to relevant committees providing updates from management on progress against the identified improvement actions. They also note that the reports show significant progress has been made. Two areas for improvement have been identified in relation to progress tracking and scrutiny, and appropriate actions have been agreed with an implementation date of September 2020.

Performance reporting has been disrupted by Covid-19

63. The Public Bodies (Joint Working) (Scotland) Act 2014 requires the IJB to produce an annual performance report and publish this within four months of the year end. Due to the Covid-19 disruption the Scottish Government extended the publication deadline and the IJB plans to publish the 2019/20 annual performance report in September 2020.

64. The Performance, Finance and Audit Committee usually receive quarterly performance updates. Due to changes in the committee timetable resulting from Covid-19, a quarter-three update was not presented. The quarter-four performance report was, however, presented to the IJB on 26 May 2020.

65. [Exhibit 5](#) shows the IJB's performance against the Scottish Government core suite of integration indicators relative to the average performance of other integration authorities in Scotland. The IJB has maintained performance in all reported areas where performance was consistent or better than the Scottish average. This includes:

- the emergency bed day rate
- the percentage of health and care resource spent on hospital stays where the patient was admitted in an emergency
- falls rate (age 65+) and

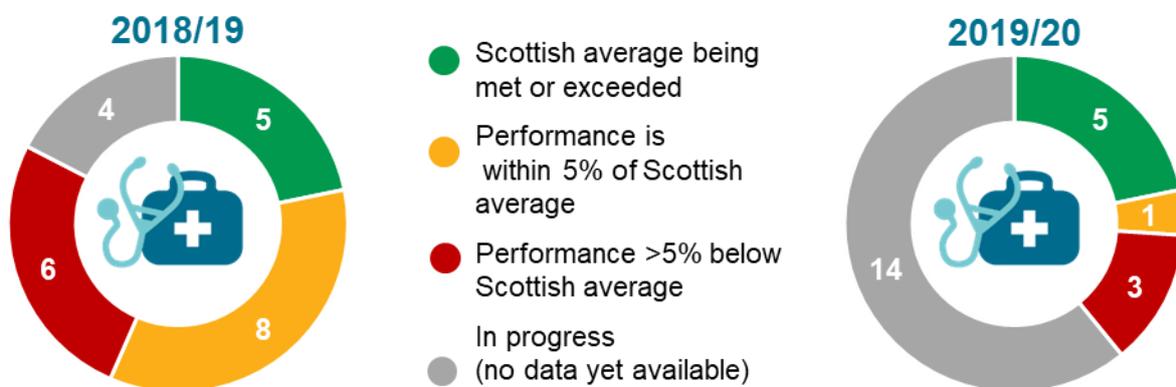
- the proportion of last six months of life spent at home or in a community setting.

66. The IJB has also reported improved performance in the proportion of care services graded 'good' (4) or better in Care Inspectorate inspections, which has increased from 76 per cent to 83 percent (above the Scottish average of 82 per cent).

67. The emergency admissions rate, premature mortality and delayed discharges continue to be challenging areas for the IJB. See paragraph [68](#).

Exhibit 5

Performance against core suite of integration indicators



Source: North Lanarkshire IJB performance reports

Note: Current data is not available for indicators 1-9 (2019/20 Health and Care Experience Survey results) as a result of Scottish Government staff redeployment for COVID-19 work. Public Health Scotland also advised integration authorities to base 2019/20 performance on the 2019 calendar year for most indicators.

There has been a significant increase in delayed discharges and the IJB is taking action to address this

68. The performance of integration authorities is also measured against six key national performance indicators. Public Health Scotland (PHS) advised that performance data for some of the indicators within this core suite should be based on the 2019 calendar year (with prior years shown on financial year basis as normal). This is because the data for the full year may be incomplete or misleading. The latest available data presented in accordance with PHS guidance shows:

- Accident and emergency attendances have decreased by 0.6% compared to last year
- Emergency admissions increased by 5% in 2019
- Unscheduled bed days are up by 1.7% since last year
- Delayed discharge bed days have increased significantly by 21.1% compared to 2018/19
- The percentage of people spending the last six months of life at home or in a community setting has increased marginally by 0.4% in 2019

- The number of people aged 65+ living at home (supported and unsupported) has remained broadly consistent over the last five years in line with the IJB's target. The data for 2019/20 is not yet available.

69. The IJB is addressing delayed discharges issues by looking to areas with good practice. The local audit team for NHS Lanarkshire carried out a review of the health board's arrangements for managing delayed discharges in 2016/17 and made several recommendations for improvement. This highlighted that delayed discharges could only be reduced by working closely with both North and South Lanarkshire IJB.

70. The local auditor has reported on progress again this year and concluded that there is a clear focus on trying to reduce delayed discharges across the three partners. All recommendations have been taken forward with some revised to reflect emerging issues. Despite this, there has been a significant increase in the level of delayed discharges.

71. The partners identified NHS Tayside and its health and social care partnerships as a good practice example in this area. Representatives from NHS Lanarkshire and North and South Lanarkshire IJB visited Tayside to gain an understanding of the whole system change across acute and community that resulted in improvement. Learning taken from this visit on the Planned Date of Discharge process has been applied successfully in University Hospital Hairmyres and will be rolled out to the other sites in Lanarkshire by the end of October 2020. In North Lanarkshire, a daily video conference now takes place to review every case to ensure that planned discharge dates are met.

Arrangements are in place to secure best value

72. In our 2018/19 annual audit report we identified that officers had plans to carry out an assessment to provide the IJB with overall assurance that best value is being delivered. The assessment examined the systems and processes that the IJB has in place to deliver best value and was reported to the Performance, Finance and Audit Committee on 5 November 2019. The assessment concluded that the IJB has arrangements in place to secure best value and identified that improvement actions are in place to continue to develop these arrangements.

National performance audit reports

73. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20 we published some reports which may be of direct interest to the IJB as outlined in [Appendix 3](#).

Appendix 1

Action plan 2019/20



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|---|---|
| 1 | <p>Disaggregation of children, families and justice social work services</p> <p>An exercise is ongoing to align the finances with the revised integration scheme over an 18-month period. The work to disaggregate the budgets for some more complex areas where the services cut across delegated and non-delegated services is ongoing.</p> <p>Risk</p> <p>The budget disaggregation exercise extends beyond the 18-month transition period and the IJB financial monitoring reports and accounts do not accurately reflect delegated services in 2020/21.</p> | <p>The IJB should monitor progress against the improvement actions identified in the governance statement and the internal audit review in relation to the transfer of children, families and justice services.</p> | <p>The budget disaggregation exercise will be concluded in 2020/2021 and a revised direction issued by the IJB to NLC to reflect the total budget transfer in respect of Children, Families and Justice Services and also the hosting arrangements for cross-cutting and support services.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: March 2021</p> |
| 2 | <p>Financial Management</p> <p>Financial monitoring reports do not provide a forecast of the outturn position for health care services until towards the end of the year and the accuracy of forecasts could improve. The timing of meetings and availability of information means that the IJB is not receiving a financial monitoring report until five months into the year.</p> <p>Risk</p> <p>Financial pressures are not identified and managed in a timely manner.</p> | <p>The CFO should continue to work with partners to improve the timing of financial reporting and outturn forecasts.</p> | <p>In consultation with both partners, further improvements will be implemented to the IJB financial monitoring arrangements to ensure the financial information is reported timeously and forecast projections are accurate. It is noted however that the financial implications of the Covid-19 pandemic have increased the financial uncertainty for the IJB and both partners.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: September 2021</p> |
| 3 | <p>Hosted service</p> <p>The management of financial resources for hosted services is agreed in principal each year. The accounting policy is</p> | <p>The IJB should set out the arrangements that exist in practice for the management of financial risk for hosted</p> | <p>The financial arrangements for hosted services will be reviewed and will take into consideration the practical experience to date of the</p> |

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, but this is not set out in a formal agreement for future years.

Risk

There is a risk that this becomes an area of dispute.

services on a permanent basis.

current hosted services principals. Following the review, the hosted services arrangements will be set out in a formal agreement to be approved by the North Lanarkshire IJB and the South Lanarkshire IJB.

Responsible officer: Chief Financial Officer

Agreed date: September 2021

4 2020/21 budget

The 2020/21 budget included £3.5 million unidentified savings and due to Covid-19 significant revisions may be required.

Risk

The budget is unachievable without further identified savings.

The 2020/21 budget should be reviewed due to Covid-19 and clear actions identified to address any funding gap.

In consultation with both partners, the IJB Financial Plan 2020/2021 will be reviewed and action taken to ensure a balanced budget is achieved by 31 March 2021. This will also require confirmation of the additional costs incurred as a result of the Covid-19 pandemic, the additional Scottish Government funding provided in 2020/2021 and the extent of unfunded costs, if any, as a result of the pandemic. The IJB will continue to be kept up to date with the emerging guidance from the Scottish Government in respect of the management of the Covid-19 costs incurred.

Responsible officer: Chief Financial Officer

Agreed date: March 2021

5 Medium to long term financial plan

The IJB now has a medium to long term financial plan that spans the period 2020/21 to 2029/30 but this will need to be updated to reflect the impact of Covid-19 and EU withdrawal.

Risk

The financial planning assumptions in the medium to long term financial plan may be inaccurate.

The IJB's medium to long term financial plan should be reviewed due to the impact of Covid-19 and EU withdrawal.

The IJB medium to long term financial plan will be reviewed to reflect the impact of the Covid-19 pandemic, EU withdrawal and other emerging health and social care cost pressures. The potential impact on the Scottish Government financial settlements both in-year and in future years will also be assessed.

Responsible officer: Chief Financial Officer

Agreed date: March 2021

Follow up of prior year recommendations

6 Hosted services

The NLIJB Financial Regulations should set out the arrangements that exist in practice for the management

Outstanding – refer to point 3

The arrangements for 2020/21 were agreed in principle by both North and South Lanarkshire IJB. However,

of financial resources for hosted services.

arrangements have not been set out formally for future years.

| | | | |
|----|-------------------------------------|---|--|
| 7 | Financial management | The Chief Financial Officer should work with partners and the IJB to improve the timing of financial reporting and outturn forecasting. | Outstanding – refer to point 2 The first financial monitoring report for the year was taken to the IJB in August 2020, which is an improvement on the previous year. The health partner did not provide a year end forecast until the end of quarter three (December 2019). |
| 8 | Financial monitoring reports | The presentation of financial monitoring reports should be reviewed to show the outturn reconciled to the movement on reserves. | Complete A reconciliation is now included in each financial monitoring report to show the outturn reconciled to the movement in reserves. This is also explained in the management commentary that forms part of the annual accounts. |
| 9 | Financial sustainability | Along term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. These should include robust scenario plans to inform decision making (best, worst, most likely). | Complete A medium to long term financial plan that spans the period 2020/21 to 2029/30 has been prepared. This includes scenario planning. |
| 10 | Internal audit | The timing of internal audit work should be reviewed to ensure that the IJB is provided with the annual audit opinion earlier in the year. | Complete The internal audit annual report 2019/20 was presented to the IJB on 26 May 2020. |
| 11 | Review of Integration | The plan developed should include clear and measurable actions to address the improvements identified. The IJB should be provided with regular updates to monitor progress against the plan. | Complete The IJB has received regular updates throughout the year. |
| 12 | Transparency | To promote transparency the papers for board and committee meetings should be available on the council's website in advance of the meetings. | Complete Papers for board and committee meetings were publicly available during the year. |

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 report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

1 Risk of management override of controls

Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position in the financial statements.

- Assurance from partner body auditors on the accuracy and completeness of year end financial reports.
- Check accuracy and completeness of consolidation of financial reports from the two partners.
- Detailed testing of significant adjustments at year end.
- Review of financial monitoring reports during the year.
- The partner body auditors provided assurances on the accuracy and completeness of the financial reports used to prepare the accounts.
- We agreed the consolidation schedule to financial reports from partners and no issues were identified.
- We tested a sample of significant year end adjustments and no issues were identified.
- The financial position was supported by reporting during the year.

2 Risk of inaccurate accounting for income and expenditure relating to children, families and justice social work service

The Integration Scheme was revised with effect from 1 April 2019 to transfer the discretionary delegated functions for children, families and justice social work services back to North Lanarkshire Council. The expenditure relating to these services is estimated to be around £19m, which is material to the financial statements. The chief financial officer is still working with the council to disaggregate the income and expenditure relating to these services.

- Reliance on the internal audit financial due diligence review of changes to the Integration Scheme arising from the transfer of children, families and justice social work services.
- Assurance from North Lanarkshire Council auditor on the accuracy and completeness of income and expenditure.
- Income and expenditure in the annual accounts will be verified to the information provided by North Lanarkshire Council at the year end.
- We carried out a detailed review of the internal audit work and obtained assurance from this that the £21 million transferred in year was transparent and reflective of the services being transferred.
- The North Lanarkshire Council auditor provided assurance on the accuracy and completeness of the financial reports used to prepare the accounts.
- We agreed the consolidation schedule to the financial report from North Lanarkshire Council and no errors were noted.
- The work to disaggregate the budgets for some more complex areas where the services cut across delegated and non-delegated services is ongoing and we made a further recommendation to complete this [Appendix 1](#).
- We accepted that there was mutual agreement between parties that the operational and

financial risks of the discretionary services would be jointly managed until the transfer of responsibilities was concluded.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

3 Risk to financial sustainability

Recent financial monitoring reports forecast a £3.6 million overspend on social care services due to demand pressures and a delay in the delivery of planned savings. The Integration Joint Board may need to resort to an unplanned use of reserves again this year and this is not sustainable. The development of a medium/long term financial plan is important to enable the Integration Joint Board to manage and respond to financial risks going forward.

- Regular financial monitoring and reporting, including the development of a budget recovery plan to address areas of overspend.
- Development of a medium/long term financial plan.

- Regular financial monitoring reports were presented to the IJB and Performance, Finance and Audit Committee throughout the year. The year end position was more favourable than anticipated and the IJB has been able to replenish its contingency reserve.
- A medium to long term plan has now been developed. We reviewed this plan to confirm that the assumptions were reasonable and identified good use of scenario planning. The CFO has recognised that this will need to be revised due to Covid-19 and we made a further recommendation to complete this [Appendix 1](#).

4 Risks to effective financial management

Our previous annual audit reports for the Integration Joint Board have identified improvements required to the financial reporting process. This includes the timing of the quarter one financial report and the availability of year end forecasts. There is a risk that financial pressures are not identified and managed in a timely manner.

- Engage with North Lanarkshire Council to obtain financial information required to report the financial position in August 2020.
- Continue to engage with NHS Lanarkshire to obtain year end forecasts for health care services.

- Review of in year financial monitoring reports found that the first report was taken to the Performance, Finance and Audit Committee in August 2020.
 - NHS Lanarkshire provided a year end forecast from the end of quarter three. The CFO should continue to work with NHS Lanarkshire to align the financial monitoring style to support the IJB where possible and we made a further recommendation to complete this [Appendix 1](#).
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Appendix 3

Summary of national performance reports 2019/20



| | | | |
|--|---|-------------|--|
| | | Apr | |
| Social security: Implementing the devolved powers |  | May | |
| Scotland's colleges 2019 |  | Jun |  Enabling digital government |
| | | Jul | |
| NHS workforce planning - part 2 |  | Aug | |
| Finances of Scottish universities |  | Sept | |
| NHS in Scotland 2019 |  | Oct | |
| | | Nov | |
| Local government in Scotland: Financial overview 2018/19 |  | Dec | |
| Scotland's City Region and Growth Deals |  | Jan |  Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models |
| | | Feb | |
| | | Mar |  Early learning and childcare: follow-up |

North Lanarkshire IJB

2019/20 Annual Audit Report

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