

North Lanarkshire Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for North Lanarkshire Integration Joint Board

February 2021

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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Risks and planned work

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Impact of COVID-19

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant effect on every aspect of Scottish society. Health and social care services have been front and centre of the public service response to the pandemic, necessitating changes to the way services are provided in many cases. Integration Joint Board's are incurring additional costs in dealing with the pandemic. The delivery of planned savings from redesign and transformation initiatives has been delayed and the extent of additional funding available to meet additional costs is not clear.

4. In Audit Scotland we continue to manage the impacts of Covid-19 on the audit process. We expect that 2020/21 will be more challenging than 2019/20, as the extended reporting timescales last year affect our current year resource position. We have secured additional funding from the Scottish Commission for Public Audit, reflecting the increased costs and reduced productivity impacts on Audit Scotland and its partner firms from Covid-19. This is protecting local audit fees. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value through our external audit of North Lanarkshire Integration Joint Board (the IJB) by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks


6. We will follow up the risk areas, and recommendations identified as part of our 2019/20 audit ([Appendix 1](#)), in addition to working with the IJB to explore risks emerging during our audit.

7. The most significant risks, which will require specific audit work, are identified in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|--|---|---|
| Financial statements risks | | |
| <p>1 Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p> | <ul style="list-style-type: none"> 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. |
| <p>2 Risk of inaccurate accounting for children, families and justice social work services</p> <p>The budget disaggregation exercise to reflect the transfer of discretionary services back to the council is now complete. A further £15.6 million has been transferred out of the IJB budget in 2020/21 (total: £36.6 million). The service level agreement between NLC and NLIJB has been set out in principle but the detail is still being developed.</p> <p>There is a risk that the IJB financial monitoring reports and accounts do not accurately reflect delegated services in 2020/21.</p> | <ul style="list-style-type: none"> Reconciliation of budget transfer. Service Level Agreement in respect of the support services which continue to be shared between Adult and Older People Social Work Services and Children, Families and Justice Social Work Services. | <ul style="list-style-type: none"> Assurance from the North Lanarkshire Council auditor on the classification of expenditure relating to these services. Income and expenditure in the annual accounts will be verified to the information provided by North Lanarkshire Council at the year end. Review of compliance with the service level agreement between NLC and NLIJB. |
| Wider dimension risk | | |
| <p>3 Financial management: impact of Covid-19</p> <p>The 2020/21 budget included £3.5 million unidentified savings and since then the IJB has incurred additional expenditure due to Covid-19. The latest financial monitoring report indicates that not all savings will be achieved in year.</p> <p>The extent of additional funding that will be made available to compensate for Covid-19 costs, including undelivered savings, is still unclear. The IJB has forecast a budget overspend of £1.1 million but this</p> | <ul style="list-style-type: none"> IJB Financial Plan 2020/2021 IJB Financial Monitoring Reports 2020/2021 Health and Social Care Partnership Mobilisation Plan and supporting financial schedules 2020/2021 IJB Financial Plan 2021/2022 | <ul style="list-style-type: none"> Review the budget setting process for 2021/22. Review of financial monitoring reports. Establish the funding and cost impacts of Covid-19 on the 2020/21 outturn. |

|  | Audit Risk | Source of assurance | Planned audit work |
|---|---|---|--|
| | assumes all Covid-19 related expenditure incurred by the health partner will be funded. | <ul style="list-style-type: none"> IJB Medium to Long Term Financial Plan 2021 – 2030. | |
| 4 | <p>Financial management: reporting</p> <p>Our previous annual audit reports have identified required improvements to financial reporting. This includes the timing of the first report and availability of forecast outturn for health care services. There is a risk that financial pressures are not identified and resolved.</p> | <ul style="list-style-type: none"> Ongoing engagement with North Lanarkshire Council and NHS Lanarkshire partners to obtain the financial information required to report the financial position in August 2021 Ongoing engagement with NHS Lanarkshire to obtain year end forecasts for health care services. | <ul style="list-style-type: none"> Review financial monitoring reports in year and report progress against 2019/20 audit recommendation. |
| 5 | <p>Financial sustainability</p> <p>The IJB 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. There is a risk that the financial planning assumptions and savings plans relating to the medium to long term financial plan are inaccurate or undeliverable.</p> | <ul style="list-style-type: none"> Health and Social Care Partnership Remobilisation Plan and supporting financial schedules 2020/2021 IJB Financial Plan 2021/2022 IJB Medium to Long Term Financial Plan 2021 – 2030. | <ul style="list-style-type: none"> Review the updated medium-term financial plan, including savings plans and report progress against 2019/20 audit recommendation. |

Source: Audit Scotland

8. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted these presumed risks in 2020/21 for North Lanarkshire IJB. In practice, the opportunity and incentive to manipulate income in the public sector is much lower than in the private sector and the IJB relies on its partner bodies systems to authorise, process and record transactions. The IJB does not have any assets, nor does it directly incur expenditure, make cash transactions, or employ staff (other than appointing the Chief Officer and Chief Financial Officer). All income and expenditure for the IJB is incurred and processed by its partner bodies. Satisfactory arrangements are in place in the partner bodies to identify this income and expenditure and report this to the IJB.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

10. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

11. We will provide an independent auditor's report to the IJB, and Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

12. The management of the unique and continuing challenges presented by Covid-19 means that we need to continue to take into consideration that audits are taking longer and we are starting the current year's audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below which we will endeavour to meet, whilst recognising that greater uncertainty exists during the Covid-19 pandemic.

Exhibit 2

2020/21 Audit outputs

| Audit Output | Target date | Committee Date |
|------------------------------|------------------|------------------|
| Annual Audit Plan | 10 February 2021 | 17 February 2021 |
| Independent Auditor's Report | 26 October 2021 | 9 November 2021 |
| Annual Audit Report | 26 October 2021 | 9 November 2021 |

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of North Lanarkshire IJB is £27,330 (2019/20: £26,560). In determining the audit fee we have taken account of the risk exposure of North Lanarkshire IJB North Lanarkshire Integration Joint Board, the planned management assurances in place, the level of reliance we plan to take from the work of internal audit and the extent of work required on previous years' recommendations. Our audit approach assumes receipt of the unaudited annual accounts and working papers by 14 June 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Integration Joint Board and Chief Officer

15. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

16. The audit of the annual accounts does not relieve management or the Performance, Finance and Audit Committee as those charged with governance of their responsibilities.

Appointed auditor

17. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

18. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

19. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the IJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control at the IJB and its constituent bodies, and establishing how weaknesses in these systems could impact on the IJB financial statements
- identifying major partner body transaction streams in relation to IJB activities and understanding how they impact the IJB financial statements
- assessing the risks of material misstatement in the IJB financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the IJB financial statements are free of material misstatement.

20. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the IJB as at 31 March 2021 and of the income and expenditure of the IJB for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.

Other information in the annual accounts

21. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

22. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in other information.

Materiality

23. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

24. We calculate materiality at different levels as described below. The calculated materiality values for the IJB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

| Materiality | Amount |
|---|------------|
| Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for the year ended 31 March 2020. | £6 million |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 65% of planning materiality. | £4 million |
| Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality. | £200,000 |



Source: Audit Scotland

Timetable

25. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited annual report and accounts by Integration Joint Board | 22 June 2021 |
| Latest submission date of unaudited annual report and accounts with working papers | 14 June 2021 |
| Latest date for receipt of assurances from partner body auditors | 30 September 2021 |
| Latest date for final clearance meeting with Chief Financial Officer | 8 October 2021 |
| Issue of letter of representation and proposed independent auditor's report | 26 October 2021 |
| Agreement of audited unsigned annual report and accounts | 26 October 2021 |
| Issue of annual audit report to Performance, Finance and Audit Committee | 26 October 2021 |
| Independent auditor's report signed | 9 November 2021 |

Internal audit

26. Internal audit is provided jointly by North Lanarkshire Council and NHS Lanarkshire. As part of our planning process the external auditors for each partner body carry out an assessment of the internal audit function and conclude whether it has sound documentation standards and reporting procedures in place, and operates in accordance with the main requirements of the Public Sector Internal

Audit Standards (PSIAS). We will review their conclusions and consider any impact on our planned audit approach.

27. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit work wherever possible and plan to consider their findings as part of our wider dimension audit work. There are no planned internal audit reviews of IJB arrangements that would directly impact our financial audit work.

Wider audit dimensions

28. In addition to our audit of the financial statements we undertake work on the wider audit dimensions in line with the Code of Audit Practice. The four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively;
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance;
- how the IJB has assured itself that its financial capacity and skills are appropriate; and
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Financial sustainability

30. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years)

and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Governance and transparency

31. 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. We will review, conclude and report on:

- whether the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can provide evidence that it is demonstrating value for money in the use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Best Value

33. Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on how the IJB demonstrates that it has met its best value responsibilities.

Independence and objectivity

34. 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 also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead (i.e. appointed auditor) for North Lanarkshire Integration Joint Board is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved

by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1: Prior year 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 services</p> <p>The management of financial resources for hosted services</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</p> |

is agreed in principal each year. 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, 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.

experience to date of the 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

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