

South Lanarkshire Integration Joint Board

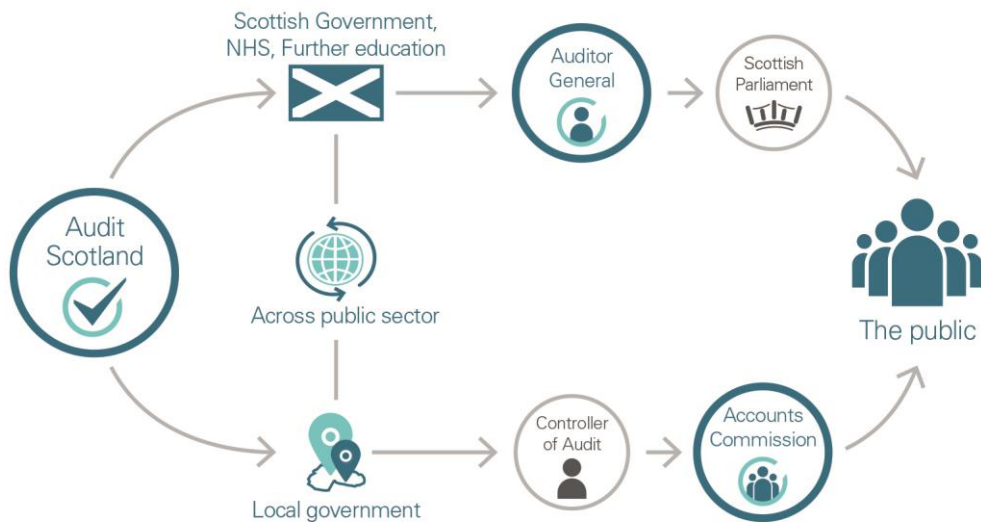
2019/20 Annual Audit Report



Who we are

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

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



About us

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

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

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Key messages

Audit of the Annual Accounts 2019/20

- 1** The financial statements of South Lanarkshire Integration Joint Board give a true and fair view of the state of its affairs as at 31 March 2020 and of the income and expenditure for the year.
- 2** An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Accounts.
- 3** Despite the disruption caused by Covid-19 the unaudited Annual Accounts were submitted and audited within the original pre-Covid-19 timetable.
- 4** Narrative reporting needs to be further developed to ensure that the messages contained in the Annual Accounts are readily accessible to the lay reader.

Financial management and sustainability

- 5** The Joint Board effectively manages its budget.
- 6** The significant reduction in the Joint Board's reserves position has been driven by a Scottish Government direction to use reserves before drawing on Scottish Government funding.
- 7** Additional prescribing costs of £1.465 million were incurred due to Covid-19. The Joint Board's prescribing reserve of £0.736 million was fully consumed in meeting the excess costs.
- 8** Significant steps have been taken to develop a longer-term financial plan. The Joint Board has acknowledged the uncertainty arising from the Covid-19 disruption and that the plan will require to be revised to reflect refreshed planning assumptions.

Governance, transparency and Best Value

- 9** The Joint Board has appropriate governance arrangements in place.
- 10** The Joint Board took appropriate steps to ensure that it was able to maintain its governance arrangements as close to normal as possible.
- 11** During the year a formal review of Best Value was undertaken against the Best Value framework used by NHS Lanarkshire.
- 12** The Joint Board has a well-developed performance monitoring process. Results for 2019/20 show a mixed picture with challenges in some key areas.

Introduction

1. The scope of our audit was set out in our Annual Audit Plan submitted to the Performance and Audit sub-Committee meeting of March 2020.
2. This report sets out our findings from:
 - the audit of the Joint Board's 2019/20 Annual Accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit as set out in Audit Scotland's [Code of Audit Practice 2016](#) and illustrated at [exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. Subsequent to the submission of our Annual Audit Plan, the Joint Board and partner bodies had to respond to the Covid-19 disruption. For the financial year 2019/20, only the final few weeks were affected, however, the effects will have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new and emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

Responsibilities and reporting

4. The management of the Joint Board is responsible for, *inter alia*:
 - preparing financial statements which give a true and fair view
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.

5. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#) and International Standards on Auditing.

6. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016.

7. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Accounts. The Independent Auditor's Report sets out our opinions on:

- whether the financial statements give a true and fair view of the state of the affairs of the Joint Board and of its income and expenditure for the year.
- whether the Annual Accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.
- whether the Annual Accounts have been prepared in accordance with relevant legislation.
- other matters as directed by the Accounts Commission.

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

9. An action plan is included at [appendix 1](#) setting out our recommendations to address the issues and risks identified from our audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Agreed management action/timing". Members of the Performance and Audit Sub-Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

Adding value through the audit

10. Our aim is to add value to the Joint Board 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 Joint Board promote improved standards of governance, better management and decision making and the more effective use of resources.

Auditor Independence

11. We comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit services; the audit fee of £26,560, set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the members of the Joint Board and the Controller of Audit and will be published on Audit Scotland's website, www.audit-scotland.gov.uk, in due course.

Acknowledgement

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

Part 1

Audit of the Annual Accounts 2019/20



Main judgements

The financial statements of South Lanarkshire Integration Joint Board give a true and fair view of the state of its affairs as at 31 March 2020 and of the income and expenditure for the year.

An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Accounts.

Despite the disruption caused by Covid-19 the unaudited Annual Accounts were submitted and audited within the original pre-Covid-19 timetable.

Narrative reporting needs to be further developed to ensure that the messages contained in the Annual Accounts are readily accessible to the lay reader.

The preparation of annual accounts is the principal means by which the Joint Board demonstrates its stewardship of resources and its performance in the use of those resources.

Audit opinions on the Annual Accounts

14. The Annual Accounts for the year ended 31 March 2020 were approved by the board on 29 September 2020.

15. We reported, in our 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 Remuneration Report, Management Commentary, and Governance Statement are properly prepared and consistent with the financial statements.

Submission of Annual Accounts for audit

16. Despite the disruption caused by Covid-19, the Joint Board did not elect to postpone the preparation of its Annual Accounts. The unaudited Annual Accounts were submitted to us on 24 June 2020 in line with the original agreed timetable.

17. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly. The Independent Auditor's Report was issued and signed off, on 29 September, in line with the original timetable.

Risk of material misstatement

18. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which could impact on the financial statements. We set out in our Annual Audit Plan the

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

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2018/19 audited Annual Accounts.

21. On receipt of the 2019/20 unaudited Annual Accounts we recalculated materiality levels based on actual gross expenditure for the year. We concluded that there was no significant impact on the audit approach of the recalculated materiality level. Our final materiality levels are summarised at [exhibit 2](#).

Exhibit 2 Materiality levels

Materiality level	Amount
Overall materiality	£5.392 million
Performance materiality	£3.235 million
Reporting threshold	£0.108 million

Source: Audit Scotland, 2019/20 Annual Audit Plan

Significant findings from the audit

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”. Significant findings are summarised at [exhibit 3](#).

23. There were no material adjustments to the unaudited Annual Accounts arising from our audit. The qualitative aspects of the Joint Board’s accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the Joint Board.

Other findings

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

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Hospital acute services (set aside)</p> <p>The “set aside” budget is the Joint Board’s share of the budget for delegated acute services provided by large hospitals, on behalf of the Joint Board. Included within the total Joint Board expenditure of £552.311 million is the £57.768 million of “set aside” costs.</p> <p>The budget and actual expenditure reported for the “set aside” are equal. The figure is based on 2017/18 activity levels for hospital inpatient and day case activity, provided by NHS National Services Scotland’s Information Services Division and adjusted to reflect 2019/20 costs.</p> <p>The historic nature of the activity data used to determine actual costs means that the variance from budgeted cost is not known until two years later. Delegated acute services costs based on actual activity levels were greater than budget by £0.752 million in 2016/17 and £2.510 million in 2017/18.</p>	<p>Covid-19 will have a significant impact on the cost of acute services delivered in 2020/21 and possibly beyond. The Joint Board is working with its partners to agree how budget variances are to be funded in the future.</p>
<p>2. Accounting for hosted services</p> <p>The Integration Scheme sets out healthcare services which are provided by South Lanarkshire Joint Board on behalf of North Lanarkshire Joint Board.</p> <p>South Lanarkshire Joint Board has adopted the “principal” method of accounting for hosted services, whereby the full costs are reflected within the annual accounts for the services which the Joint Board hosts. The Joint Board formally agreed its approach for managing 2019/20 underspends / overspends on hosted services at its meeting in December 2019 however there is currently no formal agreement in place for subsequent years.</p>	<p>The future funding arrangements for hosted services are being reviewed in order to agree principles which are compatible with each Joint Board’s strategic priorities. The discussions will consider the application of savings and also the expansion of hosted services. Formal agreements will be confirmed with both Joint Boards to reflect the hosted services arrangements.</p> <p>Recommendation 1</p>

Source: Audit Scotland audit of accounts 2019/20

Narrative reporting

25. The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary in the Joint Board’s Annual Accounts. The management commentary is intended to provide context for the financial statements. A number of elements are prescribed, including: an analysis of past performance; the priorities of the Joint Board and the plans and strategies adopted

to achieve them; and, principal risks and uncertainties, their potential impact and the mitigating actions being taken. Guidance emphasises that each body has scope for innovation and variation on how it “tells its story”, the general principle is that it should provide “a fair, balanced and understandable” analysis of a body’s performance to meet the needs of members and other stakeholders, including members of the public.

26. We acknowledge that management has made some of the improvements to narrative reports we suggested in previous years’ annual audit reports. The Management Commentary has been significantly reduced in length and a fair balance of information has been provided. Notwithstanding, there remains scope for improvement in the overall presentation. In particular, there needs to be a clearer focus on lay members and the public as the principal audience. A reduction of the use of technical language and a greater emphasis on “plain English” would increase transparency and improve access for both external and internal users.

Prior year recommendations

27. We reviewed progress against audit recommendations made in our annual audit reports of 2018/19, 2017/18 and 2016/17. The Joint Board has made some progress implementing our prior year audit recommendations. There were 16 agreed actions, of which:

- eight have been fully implemented
- seven have been partly actioned
- one (accessibility of IJB meetings to the public) has not yet been progressed

28. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

29. In 2018/19 we recommended that the Joint Board should introduce the tracking recommendations made by external audit, internal audit and other inspectorates and that this should be a regular agenda item for the Performance and Audit Sub-Committee. We are pleased to note that this recommendation has now been implemented and is included as a standing item on the agenda of the Performance and Audit Sub-Committee. This will allow members to obtain assurance that agreed recommendations arising from audit/inspectorate work have been, or are being, implemented in a timely and satisfactory manner.

Part 2

Financial management and sustainability



Main judgements

The Joint Board effectively manages its budget.



The significant reduction in the Joint Board's reserves position has been driven by a Scottish Government direction to use reserves before drawing on Scottish Government funding.

Additional prescribing costs of £1.465 million were incurred due to Covid-19. The Joint Board's prescribing reserve of £0.736 million was fully consumed in meeting the excess costs.

Significant steps have been taken to develop a longer-term financial plan. The Joint Board has acknowledged the uncertainty arising from the Covid-19 disruption and that the plan will require to be revised to reflect refreshed planning assumptions.

Financial management is about financial capacity, sound budgetary processes and the internal control environment. Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services.

Financial arrangements

30. The Joint Board does not have any assets, nor does it directly incur expenditure or employ staff other than the Chief Officer and Chief Financial Officer. All expenditure and income relating to services delegated to the Joint Board is incurred by NHS Lanarkshire or South Lanarkshire Council and processed through the respective financial systems. Satisfactory arrangements are in place to identify expenditure and income and report the financial information to the Joint Board.

31. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We are satisfied that the standing financial instructions and standing orders are sufficiently comprehensive, and that reports monitoring performance against budget are accurate and provided regularly to the Joint Board and Performance and Audit Sub-Committee.

Budget monitoring

32. Budget monitoring arrangements have been improved year on year. Management has implemented audit recommendations from our previous annual audit reports and the budget monitoring reports now represent good practice. They include details of the annual budget, year to date budget and year to date actual spend, adjustments to the original budget, explanations for significant variances and the use of reserves. The enhanced reporting allows both members and senior managers to scrutinise expenditure in greater detail.

33. Previous annual audit reports noted that the timing of budget monitoring reports was a challenge for the Chief Financial Officer. The different committee cycles of the partner bodies meant time lags in excess of two months between the end of the

financial reporting period and when reports are considered by members. The production of timeous financial information is key to ensuring that appropriate decisions can be made to address any areas of where unexpected deviations from budget have occurred. There has been no progress made in terms of alignment of committee cycles.

Setting the 2019/20 budget

34. The Joint Board approved its 2019/20 budget at a special meeting on 25 March 2019. Budgeted expenditure was set at £509.505 million with a funding gap of £2.391 million. The funding gap was closed by planned savings of £1.838 million and the use of £0.553 million from reserves. Savings were identified for each of the partner bodies with NHS Lanarkshire responsible for £1.240 million of savings and South Lanarkshire Council £0.598 million.

35. Planned savings were:

- reduced demand for care home placements and in-house care and support services, (£0.862 million)
- management of non-pay inflationary cost pressures (£0.258 million)
- phasing implementation of the Alcohol and Drug Partnership investment funding (£0.232 million)
- various small amounts across various budget heads (£0.486 million)

36. In previous years, the year-end outturn report to the Joint Board has reported whether planned savings had been achieved. This information was not reported for 2019/20.



Recommendation 2

Achievement of planned savings should be reported to the Joint Board as part of regular budget monitoring and also in the year end outturn report.

Performance against budget 2019/20

37. The Joint Board reported a deficit of £4.850 million against gross expenditure of £552.311 million (net expenditure £542.418 million). [Exhibit 4](#) summarises performance against budget.

38. A significant contributory factor to the deficit was a direction by the Scottish Government that integration joint boards should use any specific reserve balances for the Primary Care Improvement, Mental Health and Alcohol and Drug projects before drawing down any further Scottish Government funding. In total, some £6.609 million of reserves were used during the financial year, including the following:

- | | |
|--|-----------------------------|
| • Primary Care and Mental Health Transformation Fund £3.681m | • Prescribing £0.736 m |
| • Alcohol and Drug Partnership £0.545 m | • Palliative Care £0.245m |
| • Primary Care Improvement Fund £0.412m | • Pharmacy Services £0.214m |

COVID-19: Prescribing costs

39. Prescribing costs were overspent by some £1.465 million. Management has reported that much of the overspend resulted from patients seeking to obtain supplies of prescribed drugs in anticipation of supply issues due to the COVID-19 disruption. However, a proportion of the overspend was the result of the non-achievement of planned savings in this area. The prescribing reserve of £0.736 million brought forward from 2018/19 was used to fund part of the overspend.

40. Management expect that the impact of this demand spike will be, to some extent, reversed in the early months of 2020/21 as patients will have an adequate supply of prescription drugs as services and availability return to normal.

Exhibit 4

Description	£m
Gross Expenditure	552.311
Funded by:	
Contribution from NHS Lanarkshire	(410.845)
Contribution from South Lanarkshire Council	(126.723)
Service Income	(9.893)
Total Funding	(547.461)
Deficit	4.850
Use of reserves	(6.609)
Surplus for year	1.759

Source: South Lanarkshire Joint Board 2019/20 Annual Accounts

Setting the 2020/21 budget

41. The 2020/21 budget was approved by the Joint Board on 30 March 2020. This set out required savings of £2.194 million and £1.100 million from health and social care respectively. Proposals for achieving the savings in both health and social care services were agreed at the meeting although it was noted that some £1.136 million had still to be found at that date. In addition, a further £0.870 million of savings were to be delivered through “management actions”, the feasibility of which were still under consideration when the budget was approved.

42. The lack of detailed plans to support the delivery of the required savings increases the risk that they may not be achieved. The Chief Officer should ensure that progress in achieving the agreed efficiency savings is monitored and regularly reported to the Joint Board and Performance and Audit Sub-Committee.

Reserves policy

43. The Joint Board is empowered to hold reserves. The Reserves Policy was approved by the Joint Board in February 2017, and the planned transfers to and from reserves were approved by the Joint Board in June 2020. The Joint Board has reserves totalling £6.173 million, [exhibit 5](#).

44. 2019/20 is the first year since the Joint Board became operational that the reserve balance has decreased. The most significant reductions arose from the Scottish Government direction to use reserve balances before using drawdown of central funds, the main areas affected are summarised at paragraph 38.

Exhibit 5

Reserves 2016/17 to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Total Ring-Fenced Reserves	3.237	4.404	5.266	1.825
Total Earmarked Reserves	1.523	3.323	3.949	2.428
Contingency	1.359	0.551	1.808	1.920
Total Reserves	6.119	8.278	11.023	6.173

Source: South Lanarkshire Joint Board 2019/20 Annual Accounts

45. The prescribing fund of £0.736 million has also been drawn down in full to meet the additional costs of prescribing due to the Covid-19 disruption.

46. Some new “earmarked” balances were created in 2019/20, most notably the GP IT Funds (£0.750 million) and Community WIFI (£0.536 million) and the Health Promotion Activity Programme (£0.119 million).

47. In our Annual Audit Report for 2017/18 and again in 2018/19 we recommended that, as part of the annual budget setting process, a review of reserves should be undertaken and reported to the Joint Board to ensure that reserves set aside for a specific purpose are being used as planned to deliver the intended service benefits. No such review of reserves was undertaken but we are advised that the Joint Board plans to undertake a formal review of reserves balances in 2020/21.

48. The Joint Board should also consider reviewing its reserves policy to ensure that it is still aligned to its objectives.

Long-term financial plan

49. In our 2016/17 and 2017/18 Annual Audit Reports we emphasised the importance of a medium to long term financial plan to support the longer-term planning of the Joint Board. In 2018/19 the Joint Board began taking steps towards producing a medium / long term financial plan and in June 2020, a long-term plan was presented to the Performance and Audit Sub-Committee.

50. The plan spans the period 2020/21 to 2029/30 and covers the expected key areas including: the national and local context; reserves strategy; financial sustainability; key risks and uncertainties. The plan also includes elements of scenario planning which predicts the impact of deviations from planning assumptions.

51. The plan is being further developed with the partner bodies. The Joint Board has acknowledged the uncertainty arising from the Covid-19 disruption and that the plan will require to be revised to reflect refreshed planning assumptions.

Sustainability of financial management capacity

52. The integration scheme between NHS Lanarkshire and South Lanarkshire Council regulates the relationship between the partners. The Joint Board commissions delegated health and social care services from the partners NHS Lanarkshire and South Lanarkshire Council. As a commissioning body the Joint Board operates with only two officers, the Chief Officer and the Chief Financial Officer (CFO).

53. The Joint Board is required by statute to make arrangements for the proper administration of its financial affairs and to appoint a “proper officer” to have “responsibility for the administration of those affairs” (section 95 of the Local Government (Scotland) Act 1973). For the South Lanarkshire Integration Joint Board, that officer is the Chief Financial Officer (CFO). She also holds this post for the North Lanarkshire Integration Joint Board.

54. The responsibilities of the CFO are extensive. A statement providing guidance on the role of the Chief Financial Officer in local government was issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016. The guidance is intended to support CFOs in the fulfilment of their duties. The statement sets out principles that define the core activities of the role of the CFO in local government, including:

- Being a key member of the leadership team.
- Influencing business decisions and ensuring alignment with financial strategy.
- Promoting and delivering good financial management.
- Leading and directing the finance function.

55. Audit Scotland published ‘Health and Social Care Integration’ in November 2018. Subsequently (February 2019), the Ministerial Strategic Group (MSG) published a follow-up progress review which provided further detail and recommendations on themes from the Audit Scotland report. The MSG review made several proposals for improvement in the progress and pace of integration. Included in the review was the recommendation that “Statutory partners must ensure appropriate support is provided to IJB S95 Officers.”

56. Time and resource pressures on the CFO have the potential to impact on budget monitoring and reporting arrangements, and the ability to respond to emerging issues and risks. Most integration authorities have a dedicated whole-time CFO. A single CFO shared between the North and South Lanarkshire Joint Boards has a number of advantages, however, through observation and experience, we have concluded that the CFO operating without support may not be able to provide an appropriate level of service to each of the Joint Boards. The Chief Officer and Joint Board should, in accordance with the MSG recommendation, ensure that the post of CFO is adequately resourced, that support and absence cover is available and that appropriate succession planning is in place.



Recommendation 3

The Chief Officer and Joint Board should ensure that the post of CFO is adequately resourced, that absence cover is available and that appropriate succession planning is in place.

Internal control

57. All financial transactions of the Joint Board are processed through the financial systems of NHS Lanarkshire and South Lanarkshire Council. As part of our audit

approach we sought assurances from the external auditor of NHS Lanarkshire and South Lanarkshire Council. We received assurances that there were no significant weaknesses in internal controls which would impact on the Annual Accounts of the Joint Board.

Internal audit

58. Internal audit provides the Joint Board, the Chief Officer and the Chief Financial Officer with independent assurance on the organisation's overall risk management, internal control and corporate governance processes. The internal audit function is carried out on a joint basis by the Chief Auditors of South Lanarkshire Council and NHS Lanarkshire.

59. Public Sector Internal Audit Standards (PSIAS) are mandatory for all UK public sector bodies. A formal review of the adequacy of internal audit by the external auditors of the South Lanarkshire Council and NHS Lanarkshire was undertaken by the respective external auditors. Both assessments found that the internal audit services operate in accordance with PSIAS and have sound documentation standards and reporting procedures in place.

60. We carried out our annual assessment of the adequacy of the internal audit function during January of this year. We recommended that management should ensure that internal audit have sufficient resources to deliver a realistic internal audit plan. We are advised that the Joint Board is considering moving to a single Chief Auditor with overall responsibility for the joint function. At the time of writing an internal audit plan for 2020/21 has not yet been approved. This is not an acceptable position for the Joint Board to be in midway through the financial year.



Recommendation 4

The Joint Board should ensure that the internal review is completed as a priority and that an internal audit plan for the year is prepared and approved without further delay.

61. PSIAS require the "chief audit executive" to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The internal audit opinion was presented to the Joint Board on 30 June 2020 as required however the opinion was provided by the Chief Auditor of South Lanarkshire Council rather than on a joint basis.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

62. The Joint Board 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 respective auditors reviewed the arrangements in place at South Lanarkshire Council and NHS Lanarkshire. No concerns were raised in respect of standards of conduct or the prevention and detection of fraud.

Part 3

Governance, transparency and Best Value



Main judgements

The Joint Board has appropriate governance arrangements in place.



The Joint Board took appropriate steps to ensure that it was able to maintain its governance arrangements as close to normal as possible during the Covid-19 disruption.

During the year a formal review of Best Value was undertaken against the Best Value framework used by NHS Lanarkshire.

The Joint Board has a well-developed performance monitoring process. Results for 2019/20 shows a mixed picture with challenges in some key areas.

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 about using resources effectively and continuous improvement in the delivery of services to citizens.

Governance arrangements

63. 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. The governance and transparency arrangements we consider include:

- board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption.
- openness of board and committees
- reporting of performance and whether this is fair, balanced and understandable

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

65. The Joint Board is responsible for the strategic commissioning of health and social care services in South Lanarkshire. It is responsible for setting priorities and policies in the context of legislative requirements and has an obligation to report, explain and be accountable for decisions. It comprises a wide range of service users and partners including four elected councillors nominated by South

Lanarkshire Council, and four non-executive directors from the board of NHS Lanarkshire.

66. The Joint Board is supported by a Chief Officer who provides overall strategic and operational advice and is directly accountable for the delivery of services. The Chief Officer is also accountable to both the Chief Executive of South Lanarkshire Council, and the Chief Executive of NHS Lanarkshire, and provides regular reports to both the Council and the Board of NHS Lanarkshire.

67. The Joint Board and Performance and Audit Sub-Committee meet on a regular basis throughout the year. We attend meetings of the Joint Board, mainly as observers and we attend and contribute to the Performance and Audit Sub-Committee throughout the year. There is evidence of scrutiny and challenge by members at both the Joint Board and the Performance and Audit Sub-Committee.

68. Overall, the Joint Board has appropriate governance arrangements in place which support scrutiny and accountability.

Covid-19 disruption

69. The impact of Covid-19 has been set out in the Governance Statement included in the Joint Board's Annual Accounts. The adjustments to normal governance arrangements were made to allow the Joint Board to exercise oversight of its functions;

- Meetings of Joint Board and the Performance and Audit Sub-committee continued in accordance with the previously agreed timetable, except for the March 2020 Performance and Audit Sub-committee which was cancelled due to the timing of lockdown.
- Meetings are now being held by teleconference, with attendance limited to voting members, key officers and external audit. Members are invited to submit questions in advance of the meeting, responses to which are circulated to all members.
- Minutes and agendas for all meetings continue to be available on the Joint Board's website.
- The Joint Board granted delegated authority to the Chief Officer on a meeting by meeting basis, to make strategic and operational decisions of an urgent nature. This is a necessary and normal procedure for organisations during periods of disruption. Delegating authority to the Chief Officer was an area of challenge and interest from members which demonstrates good scrutiny. At the time of writing, there were no instances of this authority being exercised.

70. The Joint Board took appropriate steps to ensure that it was able to maintain its governance arrangements as close to normal as possible.

Openness and transparency

71. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the general public has access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using resources.

72. The Joint Board launched its own website in December 2017. The schedule of meetings and agendas and minutes for all Joint Board and Performance and Audit Sub-Committee meetings are available to the public through the website. In general, agendas are posted in advance of meetings which allows members of the public to make an informed choice about whether they wish to attend the meeting.

73. The website also includes a monthly Chief Officer's blog, "Val's Blog", which shares news and information for stakeholders. The blog is written in an easy to read style and offers useful information on a wide range of health and social care topics which helps to raise awareness of the services and support available through the South Lanarkshire Health and Social Care Partnership. In addition, the Chief Officer also holds a monthly open-door session where anyone can come and raise issues / provide feedback on any aspect of health and social care services in South Lanarkshire.

74. In previous years we recommended that the Joint Board consider broadcasting meetings live on the web and/or make recordings of meetings available via their websites. A number of public sector bodies, including the Scottish Parliament, provide live transmission or video recordings of meetings. While this is not a current priority for the Joint Board, it is to be kept under review.

75. Overall, we concluded that the Joint Board operates in an open and transparent manner. However, this could be further developed by using technology to broadcast to a wider public audience.

Best Value

76. Integration joint boards have a statutory duty to make arrangements to secure Best Value. Best Value is more than the traditional approach of "value for money" through economy, efficiency and effectiveness. Best Value is concerned with using resources effectively and continually improving the services delivered to communities.

77. In previous years, we recommended that management implement processes to provide the Joint Board with assurance that Best Value was being achieved. A formal review of the Joint Board's systems and processes was undertaken between February and May 2019. Best Value was assessed against the framework used by NHS Lanarkshire. The review encompassed the following areas:

- Vision and leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management
- Sustainability
- Equality

The outcome of the assessment was reported to the Performance and Audit Sub-Committee on 27 August 2019. We have not performed any work to verify the results but note that the outcome was, generally, positive. The Joint Board relies heavily on partners to have strong Best Value arrangements in place.

Performance monitoring

78. Performance monitoring is reported regularly to the Joint Board and the Performance and Audit Sub-Committee. Broadly, these are split between national performance indicators, [exhibit 6](#), and local performance indicators. Reporting of national indicators is comprehensive with trend analysis and explanations for movements, however, there is limited comparator information provided in respect of local indicators.

79. Performance reports should provide members with information sufficient for them to assess progress. Reporting of local indicators should be against targets

and prior period data to enable useful comparison and to measure the direction of travel.

Exhibit 6

National performance indicators

- | | |
|--|---|
| <ul style="list-style-type: none"> Unplanned admissions | <ul style="list-style-type: none"> Emergency admissions down by 5.3%. |
| <ul style="list-style-type: none"> Occupied bed days for unscheduled care | <ul style="list-style-type: none"> Unscheduled bed days decreased by 6.7% year on year. |
| <ul style="list-style-type: none"> Accident and emergency attendance | <ul style="list-style-type: none"> Accident and emergency attendances are down by 0.4% compared to 2018/19. |
| <ul style="list-style-type: none"> Delayed discharges | <ul style="list-style-type: none"> Year on year increase in delayed discharge bed days of 19.6%. |
| <ul style="list-style-type: none"> End of life care | <ul style="list-style-type: none"> The number of people spending the last six months of life in the community has increased from 84.2% in 2013/14 to 88.7% in 2019/20. |
| <ul style="list-style-type: none"> The balance of spend across institutional and community services | <ul style="list-style-type: none"> The number of people aged 75+ living unsupported at home has remained broadly consistent over the last six years at around 83%. |

Source: South Lanarkshire Health and Social Care Partnership

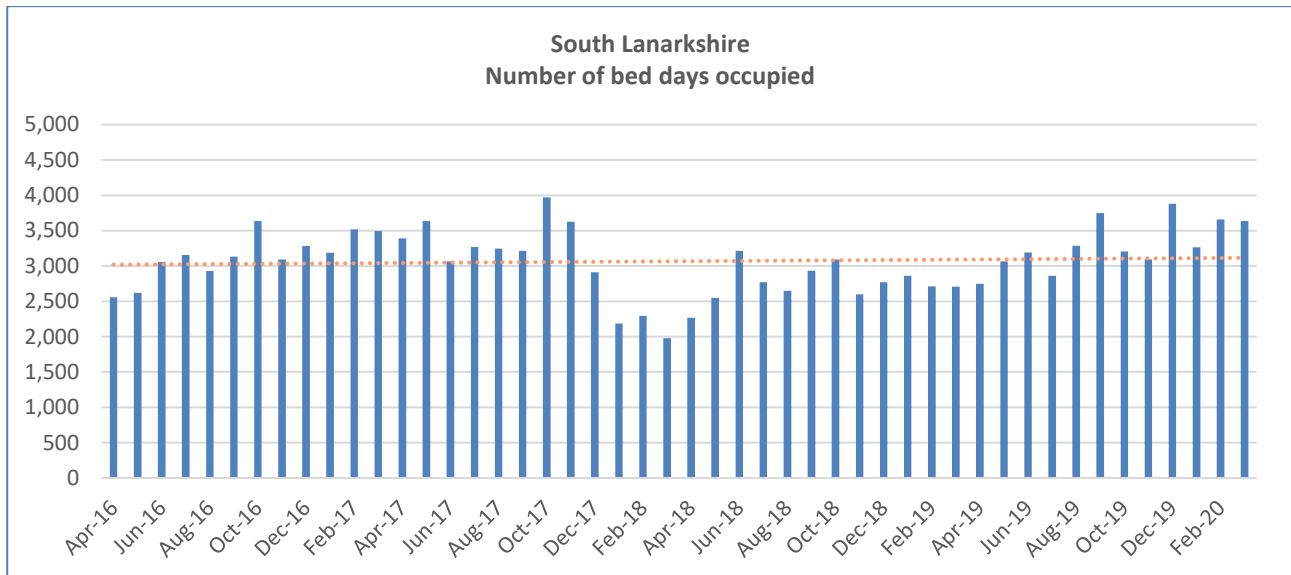
80. At an operational level, a quarterly Chief Executive Performance Review comprising a suite of indicators measuring performance against the nine national health and well-being outcomes. The report is accompanied by a comprehensive suite of data which allows management to understand the detail of the performance measure.

Delayed discharges

81. In 2016/17 the auditors of NHS Lanarkshire undertook a review of the arrangements in place for managing delayed discharges and identified a number of areas where improvements could be made. A follow-up review was completed in 2018/19 which found that these was a clear focus on trying to reduce delayed discharges across the three partners NHS Lanarkshire and the North and South Lanarkshire Integration Joint Boards.

82. The 2019/20 Performance Report shows that the Joint Board lost 39,632 bed days to delayed discharges in 2019/20 (33,128 in 2018/19) against a target for the year of 36,044. The target was set based on 2017/18 performance which management describe as a period of exceptional variation. The Joint Board has been unable to sustain the progress made in reducing delayed discharges in 2018/19. Management have advised that changes being implemented, are starting to have an impact and there is during the first half of 2020/21, discernible from the effects of Covid-19, a reduction in the number of bed days occupied due to delayed discharges We will report an updated position next year.

Exhibit 7 Delayed discharges



Source: Audit Scotland using data from NHS National Services Scotland's Information Services Division

83. Overall, the Joint Board has appropriate arrangements in place for reporting performance, however, these could be enhanced by the inclusion of meaningful targets and prior period data against which to measure progress.

Annual Performance Report

84. Statute requires that each integration authority must publish a performance report for the reporting year within four months of the year end. Regulations further prescribe the contents of performance reports prepared by integration authorities. Due to the Covid-19 disruption the Scottish Government extended the publication deadline to 30 September. South Lanarkshire Integration Joint Board decided to make the a draft available by 31 July 2020.

85. The draft report will be updated on receipt of the validated NHS National Services Scotland's Information Services Division data and will reflect recent additional guidance on the financial information and best value considerations to be included. Management advise that the report will be finalised and published by 30 September.

86. The purpose of an annual performance report is to provide an overview of performance for the benefit of citizens. We reviewed the draft report against statutory requirements and concluded that it meets the requirements. As this remains in draft form we cannot comment on the format and presentation but would expect the same high standard of presentation of previous years will be maintained in the final report.

87. Overall, we conclude that the Joint Board has good arrangements in place for managing and reporting performance.

National performance audit reports

88. 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 board as outlined in [Appendix 3](#). A summary of national reports is now taken to the Joint Board, the most recent of which was in February 2020.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Accounting for hosted services</p> <p>South Lanarkshire Joint Board has adopted the “principal” method of accounting for hosted services, whereby the full costs are reflected within the annual accounts for the services which the Joint Board hosts. The Joint Board formally agreed its approach for managing 2019/20 underspends / overspends on hosted services at its meeting in December 2019 however there is currently no formal agreement in place for subsequent years.</p> <p>Risk</p> <p>There is a risk that the treatment of underspends / overspends becomes an area of dispute.</p>	<p>The Joint Board should undertake a review of its arrangements for accounting for underspends / overspends on hosted services as part of the planned revision of the Integration Scheme.</p>	<p>Agreed</p> <p>A review of the accounting arrangements for underspends and overspends on hosted services will be undertaken.</p> <p>Responsible Officer Chief Financial Officer</p> <p>Timing March 2021</p>
2	<p>Budget setting</p> <p>Progress in achieving planned savings is not routinely reported to the Joint Board.</p> <p>Risk</p> <p>Members are unaware of potential budget overspends.</p>	<p>Achievement of planned savings should be reported to the Joint Board as part of regular budget monitoring and also in the year end outturn report.</p>	<p>Agreed</p> <p>The achievement of planned savings will be reported to the Joint Board as part of regular budget monitoring reports and will also be included in the year end outturn report.</p> <p>Responsible Officer Chief Financial Officer</p> <p>Timing March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Sustainability of financial management capacity</p> <p>Time and resource pressures on the CFO have the potential to impact on reporting arrangements and the ability to respond to emerging issues and risks.</p> <p>Risk</p> <p>There is a risk of interruption to services and processes if key officers are unable to fulfil their role.</p>	<p>The Chief Officer and Joint Board should satisfy themselves that the post of CFO is adequately resourced, that absence cover is available and that appropriate succession planning is in place.</p>	<p>Agreed</p> <p>Options will be developed for consideration by the Joint Board to ensure support is made available to the CFO.</p> <p>The adequacy and effectiveness of the financial support arrangements for the Health and Social Care Management Team will also be considered as part of this review.</p> <p>Responsible Officer</p> <p>Chief Officer</p> <p>Timing</p> <p>March 2021</p>
4	<p>Internal Audit</p> <p>The Joint Board is considering moving to a single Chief Auditor with overall responsibility for internal audit. An internal audit plan for 2020/21 has not yet been approved.</p> <p>Risk</p> <p>The Joint Board does not have adequate assurances over the governance arrangements in operation.</p>	<p>The Joint Board should ensure that the review is completed as soon as practicable and that an internal audit plan for the year is prepared and approved as soon as possible.</p>	<p>Agreed</p> <p>The Joint Board will be asked to review the joint Chief Internal Auditor appointment and to consider the appointment of a single Chief Internal Auditor. The Internal Audit Plan for 2020/2021 will also be presented to the IJB for approval.</p> <p>Responsible Officer</p> <p>Chief Financial Officer</p> <p>Timing</p> <p>October 2020</p>

Follow up of prior year recommendations

Narrative reports

Narrative reports submitted for audit suffered from an excess of detail which tended to obscure the key messages.

Risk

Reports are not readily accessible to users.

Management should, review the format and content of the narrative reports.

In progress

Improvements previously recommended by Audit Scotland have been adopted. Narrative reports will be further developed to ensure the Annual Accounts are readily accessible to the lay reader.

Responsible Officer

Chief Financial Officer

Timing



No. Issue/risk

Efficiency savings

Efficiency savings should be delivered in a planned way, to ensure that agreed levels of service provision are not compromised.

Risk

Members are unaware of the impact on service delivery.



Recommendation

Management should ensure that members and stakeholders are provided with sufficient information to allow them to assess the impact of cumulative savings on service provision.



Agreed management action/timing

In progress

As part of the ongoing development of the Medium to Long Term Financial Plan for the Joint Board, the impact of cumulative savings on health and social care services provision will be outlined.

Responsible Officer

Chief Financial Officer

Timing

March 2021

Annual performance report

The annual performance report does not fully comply with statutory requirements. Presentation could be improved.

Risk

Stakeholders are not receiving information sufficient to assess the Joint Board's performance.

The format and content of the annual performance report should be reviewed. The aim should be to ensure that it complies with statutory prescription and provides a broad range of understandable information from which stakeholders can draw balanced conclusions on the Joint Board's performance.

In progress

Improvements previously recommended by Audit Scotland have been adopted and a balanced account of the Joint Board's performance is provided. Pending further guidance on the content of the Annual Performance Report which is awaited from the Scottish Government, the content of the report will continue to be developed to take account of best practice examples.

Responsible Officer

Chief Officer

Timing

July 2021

Reserves

The Joint Board held reserves amounting to £8.278 million at 31 March 2018, £5.998 million of which was brought forward from 2016/17 for "earmarked" purposes.

As part of the annual budget setting process, a review of reserves, including earmarked balances, should be undertaken and reported to the Joint Board. The Joint Board should ensure that where funds are earmarked these are used as planned to deliver the intended service benefits.

In progress

As part of the review of the IJB Financial Plan 2020/2021 to assess the impact of the response to Covid-19 pandemic, the allocation of the Joint Board's reserves will be taken into consideration.

Responsible Officer

Chief Financial Officer

Timing

January 2021

Appendix 2

Significant audit risks identified during planning

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.</p>	<p>Assurances were obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the completeness, accuracy and allocation of the income and expenditure.</p>	<p>No issues identified in respect of management override of controls.</p>
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>Auditing standards assert that fraud should be presumed to be a significant risk in any audit.</p>	<p>Assurances were obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the accuracy, completeness and appropriate allocation of the Integration Joint Board ledger entries.</p>	<p>No issues identified in respect of the risk of fraud/error over expenditure.</p>
<p>3 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.</p> <p>The budget and actual expenditure reported for the “set aside” were equal in 2018/19: the amount set aside, was based on 2016/17 activity levels as provided by NHS National Services Scotland’s Information Services Division (ISDN), uprated for 2018/19 costs.</p> <p>Risk</p> <p>There is a risk that the income and expenditure of the Joint Board is misstated due to the lack of current activity information.</p>	<p>Engaged with officers to ensure that a robust mechanism has been developed to quantify South Lanarkshire Integration Joint Board’s set aside income and expenditure.</p> <p>Monitored Scottish Government guidance on the treatment of set aside in the 2019/20 financial statements to establish whether the financial statements are compliant.</p>	<p>The Director of Finance of NHS Lanarkshire is developing a methodology to provide a more robust estimate of set aside. This is not yet complete, so the 2017/18 activity, as notified by NHS NSS ISD, has been used and has been uprated for 2019/20 costs, in line with previous years.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Use of reserves</p> <p>At 31 March 2019 the Joint Board held reserves amounting to £11.023 million. Having a reserves policy which sets out how and when reserves will be used and having appropriate measures to correctly account for the use of reserves is essential for accurate financial reporting and for managing the Joint Board's resources.</p> <p>This is particularly significant in 2019/20 as the Scottish Government has directed Integration Joint Boards to use reserve balances for specific areas before drawing down further agreed funding from the Scottish Government.</p> <p>Risk</p> <p>There is a risk that the Joint Board will not be able to draw down the agreed funding if they are unable to demonstrate that existing reserves have been utilised.</p>	<p>Reviewed the 2019/20 reserves policy.</p> <p>Reviewed the accounting for the use of reserves.</p>	<p>There has been no formal review of reserves in 2019/20 but this is planned for 2020/21. Reserves have reduced to £6.173 million in 2019/20.</p>
<p>5 Assurances from Internal Audit and partner bodies</p> <p>Assurances from Internal Audit and partner bodies are a key aspect of the control environment as they provide management with the necessary assurances to enable preparation of the annual governance statement and unaudited accounts.</p> <p>In 2018/19, neither Internal Audit's opinion on the internal control environment or the necessary assurances from South Lanarkshire Council were received by the Joint Board prior to the approval of the unaudited accounts.</p> <p>Risk</p> <p>There is a risk that members of the Joint Board are not adequately informed of any issues which may impact on the annual governance statement or annual accounts.</p>	<p>Reviewed the Internal Audit Annual Report which includes the assurance over the control environment.</p> <p>Reviewed the assurances from the partner bodies.</p> <p>Monitored Internal Audit Reports taken to the Joint Board.</p>	<p>The Internal Audit Annual Report was presented to the Joint Board in June 2020, prior to the approval of the unaudited accounts.</p> <p>Assurances from partner bodies were received ahead of the approval of the unaudited accounts on 30 June 2020.</p> <p>Appropriate steps have been taken to address the risks set out in our Annual Audit Plan.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>6 Internal Audit</p> <p>Internal audit is a key source of assurance for both the Joint Board and management team. The annual internal audit plan sets out the work that will be undertaken by internal audit during the year. In preparing the annual audit plan, internal audit should focus upon the most important objectives and the highest priority risks facing the Joint Board. Consultation with management is an important part of creating the plan. From the agreed plan should flow the internal audit resourcing requirement. The 2019/20 plan was approved in September 2019.</p> <p>It is essential that the Joint Board is informed of progress against the audit plan to ensure that any issues arising from the audit are known and that the impact of any slippage against the plan can be assessed and addressed. No progress reports were submitted to the Joint Board during 2018/19.</p> <p>Risk</p> <p>There is a risk that the Joint Board is not clearly sighted on progress against the delivery of the Internal Audit Plan or audit issues arising and can therefore not take any remedial action required.</p>	<p>Reviewed of the progress against the Annual Audit Plan.</p>	<p>There was one other report taken by Internal Audit in June 2020. A review of the current internal audit arrangements is underway with the aim of ensuring an effective service going forward.</p>

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

<p>7 Medium to long-term financial planning</p> <p>The Joint Board does not have a medium to long-term financial plan in place.</p> <p>Risk</p> <p>There is a risk that the Joint Board is not clearly sighted on its future financial challenges and opportunities which could be detrimental to effective strategic planning.</p>	<p>Monitored progress in developing a medium to long-term financial plan and report as appropriate in the Annual Audit Report.</p>	<p>A long-term plan was presented to the Joint Board in June 2020. The plan spans the period 2020/21 to 2029/30 and covers the expected key areas including the national and local context, reserves strategy, financial sustainability and the key risks and uncertainties.</p>
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Appendix 3

Summary of national performance reports 2019/20



**2019/20
Reports**

		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

South Lanarkshire Integration Joint Board

2019/20 Annual Audit Report

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