



# REPORT

Item No: 3

<b>SUBJECT:</b>	Internal Audit Report - Due Diligence
<b>TO:</b>	Finance and Audit Sub-Committee
<b>Lead Officer for Report:</b>	Chief Accountable Officer
<b>Author(s) of Report</b>	Chief Financial Officer
<b>DATE:</b>	12 September 2017

## 1. Purpose of Report

1.1 This paper is coming to the Finance and Audit Sub-Committee (FAC):

For approval	<input type="checkbox"/>	For endorsement	<input type="checkbox"/>	For noting	<input checked="" type="checkbox"/>
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1.2 This report advises the FAC of the outcome of the internal audit review of the Due Diligence exercise.

## 2. Route To The Finance and Audit Sub-Committee:

2.1 This paper has been:

Prepared By; Head of Audit and Inspection (North Lanarkshire Council) and Chief Internal Auditor (NHS Lanarkshire)	Reviewed By; Chief Officer	Considered By; Finance and Audit Sub-Committee on 30 May 2017
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## 3. Recommendation

3.1 The FAC is asked to note the contents of the report.

## 4. BACKGROUND/SUMMARY OF KEY ISSUES

4.1 The review of the due diligence exercise was agreed as part of the Internal Audit Plan for 2016/2017.

4.2 The report attached as an appendix was initially considered by the FAC on 30 May 2017 however internal audit was not in attendance. It was agreed the report would be brought back to the next meeting of the FAC when internal audit would be present. It was felt that clarification of the original remit of the due diligence audit review would be beneficial particularly in respect of the sufficiency of funding available to meet the strategic commissioning intentions of the Integration Joint Board.

**5. CONCLUSIONS**

5.1 The auditors have categorised this audit as offering 'substantial assurance' meaning that it is considered that the control environment is adequate and has substantially operated as intended with only minimal or minor control weaknesses identified.

5.2 An action was agreed and has been implemented.

**6. IMPLICATIONS**

**6.1 NATIONAL OUTCOMES**

This relates to all nine national outcomes.

**6.2 ASSOCIATED MEASURE(S)**

None.

**6.3 FINANCIAL**

This paper has been reviewed by Finance:

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input type="checkbox"/>
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**6.4 PEOPLE**

None.

**6.5 INEQUALITIES**

EQIA Completed:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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**6.6 CARBON MANAGEMENT IMPLICATIONS**

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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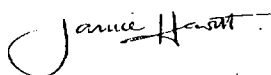
**7. BACKGROUND PAPERS**

Finance and Audit Sub-Committee 30 May 2017 Item 4 Internal Audit Report - Due Diligence

Finance and Audit Sub-Committee 7 March 2017 Item 4 Due Diligence 2016/2017

**8. APPENDICES**

Internal Audit Report - Due Diligence Appendix



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CHIEF ACCOUNTABLE OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Marie Moy on telephone number 01698 453709.

## REPORT

Item No:

<b>Audit &amp; Reference Number:</b>	Due Diligence
<b>To:</b>	Finance and Audit Sub-Committee
<b>Lead Officer for Report:</b>	Chief Accountable Officer Chief Finance Officer
<b>Author(s) of Report:</b>	Chief Internal Auditors NHSL & NLC
<b>Date:</b>	03/05/2017

### 1. Purpose of Report

- 1.1 This report presents a summary of the results of the work done by NHSL and NLC Internal Audit teams as part of the North Lanarkshire Joint Integration Board's (IJB) 2016-17 Annual Internal Audit Plan and is intended to provide assurance to the IJB's Finance and Audit Sub-Committee on the recently completed due diligence process.

### 2 Background and Summary of Key Issues

- 2.1 The scope of the audit was to ascertain whether due diligence had been satisfactorily completed in relation to Financial Assurance, Financial Governance and Risk Management in accordance with the relevant guidance issued by the Scottish Government and whether the IJB has been provided with sufficient information in order to allow it to determine whether its resources are adequate to allow it to carry out its functions and to assess the associated risks.
- 2.2 The work included consideration of the extent to which the resources to be delegated were in accordance with those services for which responsibility was being transferred to the IJB, whether known uncertainties inherent in the budgets and financial positions for the delegated services were transparent and how issues relating to savings and efficiency targets had been addressed. The audit also considered how known existing budgetary and demand pressures had been dealt with and how well key budget assumptions and key risks had been communicated. It also considered whether or not the processes followed appeared reasonable to allow the IJB to obtain assurance that its resources were adequate to allow it to carry out its delegated functions.
- 2.3 The Public Bodies (Joint Working) (Scotland) Act 2014 established a framework for the Integration of Health and Social Care within Scotland. Following Ministerial approval of the North Lanarkshire Integration Scheme, NHS Lanarkshire and North Lanarkshire Council have both delegated functions and resources to the North Lanarkshire Joint Integration Board (IJB) which has responsibility for the planning, resourcing and delivery of integrated services in line with the North Lanarkshire Integration Scheme and Strategic Plan.

- 2.4 NHS Lanarkshire and North Lanarkshire Council established the North Lanarkshire Health and Social Care Partnership with a shadow Joint Integration Board (IJB) operating during 2015/2016 with full implementation effective from 1 April 2016.
- 2.5 In May 2015 the Scottish Government issued detailed guidance on Integration Finance Assurance which detailed the required steps to be followed by IJBs, Councils and Health Boards relating to detailed management arrangements and processes to be used by all parties in identifying and agreeing the financial resources to be transferred to IJBs, which required the Due Diligence process to be completed before delegated functions transferred to the IJB.
- 2.6 A report to the IJB's Finance and Audit Sub-Committee on 7 March 2017 by the IJB Chief Financial Officer provided an overview of the due diligence process applied to the budgets devolved to the IJB for the financial year 2016-17 and reported that the resources in the first year of the IJB had been based on the due diligence process.

### **3 Conclusion/Opinion**

- 3.1 Based on our review, we consider that the due diligence process in respect of the sums being delegated in 2016-17 by NLC and NHSL are consistent with the North Lanarkshire Integration Scheme and the Guidance for Integration Financial Assurance issued by the Scottish Government, except that the process was not completed until after functions had transferred. No other significant issues or weaknesses have been identified.
- 3.2 Specific issues requiring further management action have been identified by Internal Audit and are included in the action plan at Appendix 1. The auditors have categorised this audit as offering 'substantial assurance' meaning that it is considered that the control environment is adequate and has substantially operated as intended with only minimal or minor control weaknesses identified.
- 3.3 Although we are satisfied that information provided, was sufficient to allow the reader to identify key financial risks highlighted, it should be noted that the audit report does not offer any opinion on the adequacy or otherwise of the resources to be delegated or how relevant management intends to address these specific risks or how these relate to financial risks within the IJB Risk Register.

### **4 Acknowledgements**

- 4.1 On behalf of the Internal Audit Service we would like to take this opportunity to thank all officers of the IJB and the staff within the partnership for the help and co-operation extended to Internal Audit.

### **5 Appendices**

Appendix 1 – Action Plan

Appendix 2 – Assurance Definitions

Appendix 3 – Responsibilities of Management and Internal Audit

**APPENDIX 1 – ACTION PLAN**

<b>Ref</b>	<b>Finding</b>	<b>Implication</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response</b>	<b>Implementation Date</b>
1	Whilst the information in the Due Diligence report did allow members to be able to assess risk, risks were not consistently and overtly reported in all sections.	Members would not be in a position to assess whether all risks were adequately encapsulated within the risk register.	Future reports should explicitly outline potential risks and relate these to financial risks within the IJB Risk Register.	Amber	<b>Agreed</b> The Chief Financial Officer will provide confirmation that all risks are adequately encapsulated in the IJB Risk Register. This will be reported to the next meeting of the Finance and Audit Sub-Committee.	30 May 2017
2	Narrative and financial information provided for Health services and Social Care functions report were dissimilar in format and content.	Members did not receive immediately comparable information in the most appropriate format.	The most appropriate format should be established and used for both Health and Social Care in the reports to be prepared as part of the 2017/18 budget setting process.	Green	<b>Agreed</b> A working group will be established to further develop the financial monitoring arrangements across the health and social care partnership.	30 May 2017

## APPENDIX 2 – ASSURANCE DEFINITIONS

### Assurance Opinion

Level of Assurance	Definition
<b>Substantial assurance</b>	Sound systems for risk, control, and governance are in place and should be effective in mitigating risks to the achievement of business and control objectives. Some minor improvements to existing controls in a few areas may be required
<b>Adequate assurance</b>	The systems for risk, control and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.
<b>Limited assurance</b>	The systems for risk, control and governance have some satisfactory aspects, but contain a number of significant weaknesses that are likely to undermine the achievement of business and/or control objectives and leave them vulnerable to an unacceptable risk of error or abuse

### Recommendation Priority

	Definition
<b>Red</b>	Significant weaknesses which management needs to address to achieve objectives.
<b>Amber</b>	Weaknesses which require prompt action to avoid exposure to risks in achieving objectives.
<b>Green</b>	Action advised/area for improvement to enhance control or improve efficiency.

### **APPENDIX 3 – RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT**

It is the responsibility of the IJB's senior management to establish and maintain appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of those systems. It is the responsibility of Internal Audit to provide an independent opinion on the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan and undertake our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that all weaknesses, fraud or irregularities will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose weaknesses, fraud, defalcations or other irregularities which may exist

This engagement has been conducted in accordance with the *'Public Sector Internal Audit Standards'*.